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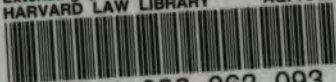
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of Railroads**

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EXTENDING PERIOD OF GOVERNMENT CONTROL OF RAILROADS

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U. S. Congress House,

**COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
OF THE HOUSE OF REPRESENTATIVES**

SIXTY-FIFTH CONGRESS

THIRD SESSION

H. R. 13707



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EXTENDING PERIOD OF GOVERNMENT CONTROL OF RAILROADS.

OFFICE OF DIRECTOR GENERAL OF RAILROADS,
Washington, December 11, 1918.

MY DEAR JUDGE SIMS: The question of railroad legislation is of such vital importance to the country that I take the liberty of submitting to you my views as to the course that should now be pursued. The war is ended and we are now confronted with the necessity of either legislating intelligently about the railroad problem at this session of the Congress or of promptly returning the railroads to their owners.

Less than three months of the present session of the Congress remain. It will be impossible, I presume, to secure legislation in this short period providing a permanent solution of the railroad problem. This being true, only three courses are open: (1) Government operation of the railroads for one year and nine months following a proclamation of peace, which would mean, in my judgment, Government operation for a period in no event longer than two years and three months; (2) the prompt return of the railroads to private control; or (3) extension of the period of Federal control to five years.

I am convinced that it is wholly impracticable, as well as opposed to the public interest, to attempt to operate the railroads under the provisions of the present law. In the first place, the time is too short, and, secondly, the present legislation is inadequate.

As to the shortness of time, it is clear to me that the railroads can not be successfully operated under Federal control during the next two years in the face of an automatic transfer to private control at the end of that time or of an earlier relinquishment by proclamation of the President. Every month that passes will bring more clearly to the minds of the officers and employees the fundamental change in management that is impending, and the question as to what that change means to the individual. It is against human nature that there can be complete and single-minded attention to duty under such difficult circumstances. This will be especially true on account of the inevitable discussion as to what ought to be done. Already this discussion is in full swing, and its reaction on officers and employees can not be consistent with the complete concentration upon their daily duties. State railroad commissions, railroad security holders, railroad executives, shippers' organizations, and other interests are naturally and properly discussing the subject and proposing various solutions. However desirable the discussion is for the crystallization of public sentiment, it can not result otherwise than to produce a state of uncertainty and ferment among the vast army of railroad officers and employees who will inevitably feel that they face a rapidly approaching change in management.

No business in the United States so imperatively requires disciplined organization and composed conditions of operation, for officials as well as for employees, as the railroad business. Not only does the safety of the lives of millions of passengers depend upon such disciplined and efficient organization, but the commerce of the country as well. To keep this vast army of officers and employees in a state of uncertainty and ferment for a period of two years would be harmful in the highest degree to the public interest. It would be impossible to prevent a serious impairment of the morale of the railroad organizations.

From the standpoint of needed improvements, the period of two years is entirely too short a time within which to plan and carry out the comprehensive improvements which ought to be made to meet the country's requirements under peace conditions. Many of the improvements could hardly be completed and put into operation inside of the two-year period, and under such circumstances and facing a change to private management at the end of two years it would be

unwise in the highest degree to make the improvements and impossible to secure the hearty cooperation of the railroad corporations.

Because of the inadequacy of the present legislation, the authority of the States and the Federal Government has been left in doubt by provisions which I opposed when the bill was under discussion. Conflict between State and Federal jurisdictions will grow more acute under this law. The revolving fund appropriated by the Congress will be insufficient to carry the Federal operation for a two-year period. More than that, it is of the utmost importance to the commerce, industry, and life of the American people that a comprehensive program of improvements to railroad properties shall be carried forward over a period of at least five years; such a program will involve expenditures of at least \$500,000,000 per annum or \$2,500,000,000 for the five-year period. The needed funds are not provided by the present law. Moreover, it is difficult under the present law, without the consent of the corporations, to carry forward a comprehensive plan of joint improvements, which, to be of value to the public, must of itself disregard the selfish and irreconcilable competitive interests of the various carriers. Many terminal improvements, to be genuinely serviceable to the public, must be made without regard to the interest of any particular carrier. Therefore agreements between the Government and the railroads affected will, in many instances, be impossible, and if the Government should proceed with such improvements, using the people's money for the purpose, without securing the carriers' consent, litigation would undoubtedly arise upon the termination of Federal control with the danger that a large part of the Government's investment in the properties might be lost.

Upon the efficiency of the transportation machine in America depends in great measure the future prosperity of the Nation. Involved in this prosperity is the extension of our foreign trade. We produce so much more than we consume that markets must be found for that surplus. Those markets are the competitive markets of the world. We must be able to enter them upon equal terms with any other nation. Our transportation system, both on land and water, must, therefore, function at the highest point of efficiency and at the lowest possible cost if we are to get our reasonable and fair share of the world's trade and in turn be able to keep a prosperous, contented, and happy population at home.

To attempt to continue Federal control under the inadequate provisions of the present Federal control act and for the very brief period it authorizes would be to multiply our difficulties and invite failure. On the other hand, I am convinced from the experience of the past year that the return of the railroads to the old competitive conditions will be hurtful alike to the public interest and to the railroads themselves. This course, however, will bring fewer evils in its train than the unsatisfactory, if not impotent, Federal control provided for by the present act. The railroads were taken over as a war measure. They have been operated during the past year for the paramount purpose of winning the war. I think it will be generally admitted that the war service has been successfully rendered, and I am sure that experience of great value and benefit has been gained not only for the public but for the railroads themselves during this brief test.

There is one, and, to my mind, only one, practicable and wise alternative, and that is to extend the period of Federal control from the one year and nine months provided by the present law to five years, or until the 1st day of January, 1924. This extension would take the railroad question out of politics for a reasonable period. It would give composure to railroad officers and employees. It would admit of the preparation and carrying out of a comprehensive program of improvements of the railroads and their terminal facilities which would immensely increase the efficiency of the transportation machine. It would put back of the railroads the credit of the United States during the five-year period so that the financing of these improvements could be successfully carried out. It would offer the necessary opportunity under proper conditions to test the value of unified control, and the experience thus gained would of itself indicate the permanent solution of the railroad problem.

The American people have a right to this test. They should not be denied it. It is to their interest that it should be done. In my opinion, it is the only practicable and reasonable method of determining the right solution of this grave economic problem.

I am not now and have not been for the past year interested in proving or disproving the theory of Government ownership or any other kind of theory. The railroads have been operated for the past year with the purpose of serving

efficiently the paramount needs of the war and at the same time furnishing the best possible service to the public, whether such operation tended to prove or to disprove any theory of railroad control, no matter what it might be. I have formed no opinion myself as to what is the best disposition of the railroad problem, because the test has not been sufficient to prove conclusively the right solution of the problem. I believe that a five-year test will give the American people the right answer. An ounce of experience is worth a ton of theory, and with the start already made under war conditions, it would be a comparatively simple matter to complete the test so well begun and thereby gain the invaluable experience which will determine the solution of a problem which has vexed our State and National politics and our economic development for the past generation.

There are those who may say that an extension of five years for such a test will mean Government ownership. Personally I do not believe it. But whether such a test would indicate that the ultimate solution shall be Government ownership or a modified form of private ownership under effective Federal regulation, should not cause us to hesitate or refuse to act. It seems to me that in a democracy like ours, where public opinion and the judgment of the majority must finally control, the plain duty is to take those steps which will fully inform public opinion, so that the judgment may be based upon knowledge rather than upon theory. Any test which will illumine the subject so completely that public opinion may operate upon it intelligently would seem to me to be desirable in any circumstances.

In this connection, may I draw your attention to the statement I made before the committee of the Senate on January 21, 1918, in reply to a Senator who asked if I believed "in the Government ownership of railroads," I said:

"I do not, or I have not, at least, felt that it was necessary to take the actual ownership of the railroads. I believe that it will be impossible after the return of peace to restore the competitive conditions to the same extent as they existed prior to the outbreak of the war. I favor some form of governmental regulation and control of a far stronger, more intelligent and effective character than we have had heretofore, because I am satisfied that a stronger Government control will be demanded and will have to be worked out, both in the interest of the public and in the interest of the security holders of these railroads."

Those who may oppose an extension of five years should face the situation squarely and acknowledge that they prefer the immediate return of the railroads to private control under the old conditions without remedial legislation. It is idle to talk of a return to private control under legislation which will cure the defects of the existing laws. There is neither time nor opportunity for such legislation at present. It is impossible and hopeless for the Government to attempt the operation of the railroads for 21 months after peace under the present law. Therefore, the country should squarely face the condition that the railroads must promptly go back into private control with all existing legal difficulties unless the only practical alternative, viz, an extension of time, is promptly granted.

I hope that the Congress in its wisdom will grant a five-year period for a test of unified railroad operation under proper provisions of law which will make that test effective and at the same time take the railroad question out of politics while the test is being made. Unless this is done, I do not hesitate to say the railroads should be returned to private ownership at the earliest possible moment. The President has given me permission to say that this conclusion accords with his own view of the matter.

Cordially, yours,

W. G. McADOO.

Hon. T. W. SIMS,
*Chairman Interstate and Foreign Commerce Committee,
House of Representatives.*

[H. R. 13707, Sixty-fifth Congress, third session.]

A BILL To amend an act entitled "An act to provide for the operation of transportation systems while under Federal control for the just compensation of their owners, and for other purposes," approved March twenty-first, nineteen hundred and eighteen.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first paragraph in section

six of the act entitled "An act to provide for the operation of transportation systems while under Federal control, for the just compensation of their owners, and for other purposes," approved March twenty-first, nineteen hundred and eighteen, be, and is hereby, amended by adding the following:

"That the further sum of \$500,000,000 is hereby appropriated, out of any money in the Treasury not otherwise appropriated, and made a part of the revolving fund provided for in said section six."

SEC. 2. That section fourteen of said act be, and is hereby, amended to read as follows:

"SEC. 14. That the Federal control of railroads and transportation systems herein and heretofore provided for shall continue for and during the period of the war and thereafter until January first, nineteen hundred and twenty-four: *Provided, however,* That the President may at any time during the period of Federal control agree with the owners thereof to relinquish all or any part of any railroad or system of transportation. The President may relinquish all railroads and systems of transportation under Federal control at any time he shall deem such action needful or desirable. No right to compensation shall accrue to such owners from and after the date of relinquishment for the property so relinquished."

STATEMENT OF HON. W. G. McADOO TO SENATE COMMITTEE ON INTERSTATE COMMERCE.

RAILROAD CONDITIONS WHEN GOVERNMENT TOOK CONTROL.

UNITED STATES RAILROAD ADMINISTRATION.

Washington, D. C.

GENTLEMEN: To review the results of the past year of Federal control, it is helpful first to survey the railroad conditions that immediately preceded that control.

(1) For several years railroads in seasons of heavy business had developed conditions of transportation stringency similar to the conditions of financial stringency that characterized our banking situation prior to the passage of the Federal reserve act, but the periods of transportation stringency were even more frequent and more pronounced. It was impracticable for the scores of different railroad companies to depart from their competitive practices and join in a coordination of facilities and effort so as to meet the traffic demand made upon them and enable them to handle their "peak load" successfully. These competitive rivalries prevented any sort of central control of the traffic itself. Therefore it was impossible to stop the loading of traffic which could not be promptly disposed of at destination, or to encourage movement to destinations where the traffic could be promptly handled. To an important extent there was inadequacy of terminal facilities and a serious lack of coordination and use of those in existence.

In the fall of 1916 the transportation stringency reached such a point that traffic was almost paralyzed through inability to dispose of it at destination. In the fall of 1917, despite strenuous efforts, and yet under a larger degree of coordination than had ever before been attempted to prevent such a situation, a paralysis of the transportation situation again occurred. These conditions were most aggravated in the territory east of Chicago and St. Louis and north of the Ohio and Potomac rivers, but the acute conditions in this territory reacted unfavorably on the transportation situation throughout the rest of the country, damming up the traffic on connecting lines and producing congestion and distress throughout the country.

The seriousness of the situation is shown by the fact that on January 1, 1918, there were reported on all roads a total of nearly 145,000 cars accumulated on account of the congestion which prevailed in the territory east of Chicago and St. Louis and north of the Ohio and Potomac in excess of the normal movement.

Very serious conditions of car shortages existed both in the fall of 1916 and in the fall of 1917. In 1916 the situation became so critical that a special investigation was inaugurated by the Interstate Commerce Commission, with the result that under date of December 28, 1916, Commissioner McChord made a report in which he stated that "in some territories the railroads have furnished but a small part of the cars necessary for the transportation of staple articles of commerce, such as coal, grain, lumber, fruits, and vegetables." He added: "In consequence, mills have shut down, prices have advanced, perishable articles of great value have been destroyed, and hundreds of carloads of food products have been delayed in reaching their natural markets. In other

territories there have been so many cars on the lines of the carriers and in their terminals that transportation service has been thrown into unprecedented confusion, long delays in transportation have been the rule rather than the exception, and the operation of established industrial activities has been uncertain and difficult."

In its report of December 1, 1916, the Interstate Commerce Commission, after reviewing the car-shortage situation in detail and telling of investigations into conditions at widely separated points, said: "Substantially all told the same story of failure of transportation facilities and resulting embarrassment and losses. It abundantly appeared that the movement of loaded cars was in the main and on the whole very slow. The time of movement of grain from Iowa points to Chicago was shown to be as low as 2 days and as high as 25 days, the greater part taking from 4 to 8 days. Serious delays to loaded cars in switching to points of unloading at large terminals and in passing through such terminals out to other cities, explained much of the failure in car service."

I need not recount the varying expedients adopted by the railroads under private control to bring order out of the railroad chaos, none of which was adequate or successful. The railroad executives of the country tried valiantly during 1917 to solve the problem. Most of them patriotically sought to find means of keeping the transportation system functioning. Competitive and private control, however, were unequal to the task.

(2) The great movement of traffic overseas without satisfactory coordination of rail and ocean transport, the heavy building operation in the way of construction of cantonments, shipbuilding plants, storage depots, munition plants, etc., the transfer to war activities of the ships and tugs of the coastwise service, thereby throwing still another new burden on the railroads, the increasing and exacting movement of troops—all these operated to accentuate difficulties and develop the grave weaknesses inherent in the uncoordinated competitive activities of all the different railroad companies.

(3) These difficulties were further accentuated by inability to get promptly new locomotives which had been ordered (but which could not be delivered because much of the locomotive output was being devoted to our allies) and to an entire absence of any locomotives in the reserves of the railroad companies.

Many lines had entirely inadequate facilities for repairing the locomotives they own. This is shown by the fact that up to December 14 the total number of locomotives sent to other line shops for repairs was 2,220. For instance, 423 locomotives of the Baltimore & Ohio were repaired in the shops of other lines, while Baltimore & Ohio shops repaired only 24 locomotives belonging to other lines, leaving the net assistance received by the Baltimore & Ohio 399 locomotives. Two hundred and one locomotives of the Pennsylvania lines west were repaired in other line shops, while the shops of the Pennsylvania lines west repaired only 55 locomotives belonging to other lines, leaving the net assistance received by the Pennsylvania lines west 146 locomotives. Thirty-six locomotives of the Central Railroad of New Jersey were repaired in other line shops, whereas they repaired no locomotives of other lines.

Prior to Federal control the railroads had voluntarily transferred into the congested eastern territory 107 engines from the West and South. The Railroad Administration in addition put into service in the East 130 locomotives constructed for lines in the West and South. In addition the Railroad Administration relocated 215 locomotives already in the East. This ability to place locomotives promptly where they were most needed, regardless of the interest of any particular line, greatly assisted in bringing order out of chaos.

Notwithstanding the tonnage handled during the year, which has been the heaviest ever known, there are now stored in good condition and ready for winter service 1,189 locomotives, while one year ago there was not a single servicable locomotive in storage. This improved condition has been due largely to the coordination of shop work, which has resulted in an average increase of 20.93 per cent each week in the number of locomotives receiving classified repairs.

(4) The relations with labor were of the most unsatisfactory and threatening character. The cost of living had greatly increased. Insistent demands were urged by railroad labor for corresponding increase in wages. There was no method for an amicable adjustment of labor disputes. To a large extent there appeared to be a lack of confidence on the part of labor in the management of the railroad companies, if not an actual hostility thereto. There

was imminent prospect of the most serious strikes that had ever threatened the railroad situation.

(5) The financial situation of some of the railroad companies was precarious. The rapid increase in operating costs, due to increased prices of materials and supplies, and the increased expense of operating under the conditions of transportation stringency, were threatening to impair the ability of many railroad companies to meet their interest and dividends, so that the railroad plight was a serious menace to the general financial situation. Even if railroad credit had been at its best, instead of at its poorest, it would have been difficult at the time to raise funds for urgently needed capital expenditures because of the credit demand of the Government and the high rates prevailing for money.

(6) The country was at war. Its industrial power was being turned into war channels. The volume of traffic to be transported for war purposes was steadily growing and promised to keep growing to a degree which could not be foreseen. The Nation's success in the war was largely dependent upon the transportation machine functioning with an efficiency surpassing anything which had ever been known in the past. Yet all the factors were rapidly converging to produce a prolonged and serious transportation paralysis.

For these reasons the President took possession and control of the railroads on December 28, 1917.

Simultaneously with his proclamation the country entered upon 10 weeks of the worst winter that had ever been known, and transportation which before was slowing down in an alarming way was confronted with the danger of almost complete stoppage.

These were the conditions under which the United States Railroad Administration began its work.

CONDITIONS UNDER GOVERNMENT CONTROL.

The principal railways and transportation systems of the country have now been under the control of the Government for one year, a year marked by the participation of the United States in the greatest war in history, a year in which the railroads were required to carry a greater burden both of freight and of passenger traffic than ever before in their history, a year which began with terrific blizzards and an alarming coal shortage, a year in which enormous amounts of foodstuffs and other supplies had to be transported through the United States to the seaboard for shipment abroad, a year in which an army of millions of men had to be transported from their homes to camps and cantonments and then to the seaboard in order that they might take their places on the battlefields of France and Belgium.

The year is now behind us. In the last few months there has been an entire absence of any transportation stringency, although the traffic carried was the heaviest of even this unprecedented year. The contrast between transportation conditions during the autumn just passed and the autumns of 1916 and 1917 is marked.

I shall recount some of the things that have been accomplished:

THE MOVEMENT OF TROOPS.

From January 1, 1918, to November 10, 1918, a total of 6,496,150 troops were moved over the American railways, 4,038,918 having been transported on special trains. These movements required a total of 193,002 cars of all types, including 167,232 coaches for draft and regular train movements. These troops were transported in comparative freedom from accident, due largely to the steadfast maintenance of a reasonable rate of speed.

To insure proper care and orderly movement of the immense body of men comprising the American Army and Navy, a special organization has been built up, including a railroad representative stationed at the office of each State adjutant general to cooperate in the transportation of drafted men, a man in charge of troop movements on each principal railroad, and a central organization under the Railroad Administration in Washington.

An average of 12.2 cars per train was used in the movement of troops, and the speed was kept down to an average of 20 miles per hour. The special troop trains averaged 443 men.

To allow soldiers and sailors on leave to visit their families at home, the Railroad Administration put into effect a special rate of 1 cent a mile for men on furlough—an accommodation which added to morale and permitted many soldiers and sailors to see their loved ones who otherwise could not have afforded it. A special rate of 75 cents for meals costing civilians \$1 and \$1.25 was made for soldiers and sailors. No certificates were required for such meals, the uniform of a soldier or sailor being all that was necessary.

After the signing of the armistice and the beginning of demobilization, an effort was made to have the War Department discharge the men at their homes, but this plan having been rejected, and the travel and sustenance allowance fixed by Congress having been limited to 3½ cents a mile, the Railroad Administration continued the 75-cent meals for discharged soldiers and sailors and allowed them a reduced rate of 2 cents per mile while returning home.

Hardly had the movement of troops overseas gotten well under way before the armistice was signed with the central powers and the work of demobilizing was begun. It is estimated that to demobilize troops under arms will involve the transportation of not less than 7,250,000 men; for the creation of the Army and the sending of approximately 2,000,000 men to the points of embarkation involved the movement of 7,800,000 men.

At the peak of the activities incident to the prosecution of the war it was necessary to provide for the daily movement to and from industrial plants and camps of 205,587 persons in each direction. To perform this work 2,319 passenger equipment cars were in daily use.

MOVEMENT OF FOOD TO EUROPE.

The food situation in the allied countries of Europe became extremely critical in February last, representations being made by Great Britain, France, and Italy that unless the program of food deliveries promised by the Food Administration was kept pace with, Germany and her associates inevitably would win the war. While the facts could not be told at the time, because of the possible effect on the morale of the nations fighting the central powers, it was nevertheless true that, according to official word received from the entente allies, the outcome of the war depended upon the ability of the American railways to transport sufficient supplies of foodstuffs to the Atlantic seaboard for shipment abroad. This problem was met. It was no time for half-way measures. The safety of the world hung in the balance. Empty box cars were rushed from all portions of the East and South to the southwestern grain States. Conflicting traffic of all kinds was held up. Every facility of the Railroad Administration and of the railroads under its jurisdiction was thrown into the balance. Officials and employees worked day and night. The result was magnificent. By March 15 the vessel capacity of the allies had been satisfied and there was available at North Atlantic ports an excess on wheels of 6,318 carloads of foodstuffs, exclusive of grain on cars and in elevators.

Since that time there has never been any danger of the American railways failing to transport the necessary amount of food supplies for Europe. It perhaps is not too much to say that this was one of the turning points in the war.

In the period from July to November, 1918, 135,000 more cars of grain were handled than in the same months of 1917, thus demonstrating the enormous extra strain placed upon the railroads by this one item alone.

COAL.

Another critical situation which faced the railroads during the year just passed and was met had to do with the coal supply. Constant predictions have been made that the railroads would not function sufficiently to transport enough coal to supply the Nation's needs; these predictions have not been realized. New England's demands have been met, and 28,153,317 tons, the largest tonnage of coal ever known, has been moved to the Lake Erie ports and transported to the Northwest. In 1917 only 26,826,000 tons were moved over this route; in 1916 only 24,692,000 tons; and in 1915 only 21,507,000 tons.

Some indication of the freight traffic problems facing the railroads in the year just passed may be gained from the fact that there was a net increase of

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741,666 cars, or approximately 37,083,300 tons, of bituminous coal loaded during the 10 months ending October 31, 1918, as compared with the same 10 months in 1917. This increase was achieved despite the fact that the severe weather conditions prevailing in January, 1918, resulted in a decreased production, due largely to car supply, of 65,594 carloads. The severe weather conditions continued throughout February and part of March, but nevertheless the railroads recovered themselves, and in February, 1918, loaded an increase of 24,366 cars of bituminous coal over February, 1917.

MOVEMENT OF OTHER ESSENTIAL SUPPLIES.

At the same time, special attention was being given to the movement of fruits, of cotton, of oil, of iron, and of the other principal products of the farms, the factories, and the mines of America. Wherever necessary, special trains were utilized to transport these staple articles, and other methods were made available which resulted in fully meeting the situation.

For instance, in April conditions were chaotic in the oil industry, and a great many of the refineries in the mid-continental fields in particular were shut down or only partially operating on account of shortage of equipment. The Railroad Administration arranged to consolidate oil shipments into trainloads, symbol it, and move it through to destination or breaking point in solid trainloads. So effective were these measures that Mr. W. E. MacEwen, chairman of the transportation committee of the Western Petroleum Refiners' Association, voluntarily wrote on December 16, 1918, as follows:

"Without going into the details of the matter, it suffices to say that within 30 days there was such an improvement that from that time on there was never a shortage of tank cars in the oil industry in the western field. There never was a demand made upon the western oil industry that they were not able to meet so far as transportation facilities were concerned. There never was a time that there was not at least a day and a half's loading of cars on hand. During the first 10 months of the year there was loaded from the mid-continent field 256,082 cars, compared with 200,603 cars for the same period 1917, an increase of 55,479 cars, with practically no increase in the amount of equipment. From April 20 to November 30, inclusive, there was loaded from the midcontinent field a total of 3,585 solid trains of oil, containing 100,530 cars.

"In the month of January the mileage per car per day on tank cars of western refiners was 26.16; in June, 56.27; and in September, 58.4, an increase of 100 per cent in the mileage performance. What was accomplished in the oil industry is one of the most concrete illustrations in the history of railroad-ing of the economic gain by the cooperation between the shipping public and the railroads."

BUREAU FOR SUGGESTIONS AND COMPLAINTS.

In order to furnish the public a medium for communicating directly with the Railroad Administration concerning bad service, the Bureau for Suggestions and Complaints was established with very helpful results. Many constructive criticisms have been received and acted on. A total of 1,328 commendations and 714 complaints of individual discourtesy or incompetence have been received during the 16 weeks since the formation of the bureau to December 24, 1918. The commendations have outnumbered the complaints almost two to one. This in itself is a tribute to the railroad employees of the Nation. Other letters have been received calling attention to "organic" defects in railroad service. A sharp decrease in the number of complaints has marked the return of peace and the consequent improvement of service.

PROPERTY PROTECTION.

Promptly after the inauguration of Federal control, attention was directed toward minimizing the enormous drain upon railroad revenues as a result of loss as well as damage to freight and the activities of thieves. When this work was begun, it was found that shipments of all kinds were being tampered with and stolen. Goods of all kinds were taken, even Army supplies, Red Cross shipments, and Belgian relief shipments. While there are not available authen-

tic statistics as to the volume of thefts from carriers in recent years, for 1914 carriers reported to the Interstate Commerce Commission a total of \$10,310,780.41 of thefts of merchandise from cars and terminals, including concealed and unlocated losses. The principal thefts have been of four classes: (1) Theft of merchandise from cars and terminals; (2) thefts of tools, machinery, appliances, brasses, etc.; (3) padded pay rolls; (4) embezzlements.

The following statistics reflect the activities as far as reported to the Railroad Administration of the police agencies of the carriers under the direction of the Railroad Administration from April 1, 1918, to December 1, 1918:

Arrests for thefts.....	10, 530
Convicted.....	6, 069
Pending.....	2, 075
Employees arrested.....	3, 241
Value of goods recovered.....	\$667, 578. 54
Number of sentences imposed of one year or over.....	1, 095
Fines imposed.....	\$150, 509. 63

ECONOMIES.

During the war period, essential war necessities had to be met regardless of cost. In peace time, naturally, one of the chief aims of railroad operation should be the saving of money. But even though expense could not be made the first consideration during the war, strict attention was given to this point and orders were issued to effect savings wherever possible without interfering with the war program. Many of the economies brought about, such as rerouting, common use of terminals, etc., will be reflected but slightly in the operating income accounts of the carriers for the year 1918. They will appear fully in the statements for the year 1919. Nevertheless, reports so far received from five of the seven regions show that on a group of selected principal items savings totaling \$85,576,424.71 have been effected in the period from December 31, 1917, to December 31, 1918. Reports from the two remaining regions are not yet available.

The specific items which produced this saving include the unification of terminals and stations, the elimination of passenger service, reductions in organizations, and miscellaneous economies.

Equipment has been saved by the elimination of nonessential passenger trains; by the common use of freight cars; the common use of repair shops; the emergency use of the Pennsylvania Hudson River tubes for the movement of anthracite coal from the Jersey terminals to Long Island, a step which could not have been taken under private control; the introduction of the coal zone plan in cooperation with the Fuel Administration, which resulted in the saving of car-miles and permitted the production and transportation of several million tons more coal than would otherwise have been possible; the utilization of the Cape Cod Canal for the transportation of coal to New England; the operation of locomotives under steam from factories to the point of delivery, instead of hauling them as dead freight, as in the past; the introduction of the "sailing-day plan" for less-than-carload freight; the establishment of special organizations to handle refrigerator and tank cars; and the elimination of circuitous routes.

During the first seven months of Federal control alone an aggregate of 21,000,000 passenger-train miles a year was done away with in the territory west of Chicago and the Mississippi River, while in the eastern territory 26,420,000 passenger-train miles were eliminated. Without this saving in motive power and equipment the moving of millions of troops could not have been achieved successfully.

UNIFICATION OF TERMINALS.

It having been shown that bad terminal conditions were proving a serious handicap to the necessary transportation business, terminal managers were appointed at the larger terminals with jurisdiction over the facilities of all lines. Successful efforts have been made to route freight so as to arrive at the specific terminal where it was to be disposed of. Interchange switching

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in terminals has been largely eliminated. The report on operations and the reports of the various regional directors will give in detail what has been accomplished in this respect, but it is worth noting at this point that at the Chicago terminals it has been the practice in the past to reconsign practically all coal after arrival. Under Federal control, as a result of cooperation with producers, 66 per cent of the coal arriving in Chicago during August was consigned directly to consumer from the mines and cross hauling between terminal lines was greatly reduced through the same cooperation.

Marked convenience to the public resulted from the utilization of the Pennsylvania Station at New York by the Baltimore & Ohio and Lehigh Valley passenger trains.

SOLID TRAINS.

In order to meet the extraordinary war demand, and rush food and other supplies through to destination, arrangements were made early in the year for the forwarding of consolidated trains of export freight, principally war supplies, of food, grain, munitions, etc. Under this arrangement a total of 5,000 special export trains have been handled from western terminals, containing 124,198 cars of export freight, in the eastern region, the trains being filled out with other freight to make the full trainload as required. With the concurrence and cooperation of shippers, plans were made to put into effect in June for assembling live stock, fresh meat, live and dressed poultry, and perishable freight, in solid trains, and forwarding them from Chicago, St. Louis, Cincinnati, Buffalo, and other western points, on specific days of the week, via roads best fitted to handle them, resulting in a reduction in the feeding requirements for live stock and in the number of fast freight trains required to handle it. In the eastern region, the decrease in Chicago alone has been 11 trains per day, and the average cars per train of high-class and perishable freight has been increased from 23 to 36. Grain, oil, and cotton are being consolidated and forwarded in trainload lots from western points, resulting in a large saving of labor, in switching, eliminating cross hauls and facilitating movements. In the eastern region alone, a total of 981 special oil trains have been run since June 1, containing a total of 25,034 cars.

ELIMINATION OF CIRCUITOUS ROUTES.

One of the most wasteful practices in railroad operation in the past has been the use of circuitous routes in the handling of freight traffic, often for competitive reasons. General Order No. 1 directed that everything possible be done to alter this condition. In order to economize in rolling stock and motive power comprehensive studies were undertaken for the purpose of developing new routes which would not only be shorter, but more economical and efficient. As a result, car, engine, and train miles have been saved, and the shipping public has been benefited, because more cars have been available and more expeditious movement of traffic has been secured. Shippers were not responsible for the former extensive use of circuitous and uneconomical routes, as this routing was largely influenced by the agents of the interested railroads. Shippers have gladly responded to what are now the combined efforts of all railroad representatives under Federal control to influence the use of direct and economical routes, and consequently the original routing as specified by shippers is now, generally speaking, in accordance with the established routing instructions, and extensive diversions are unnecessary. Therefore the increase in efficiency can not be measured by the car-miles saved through diversions of freight in transit. The savings in distance via many of the new routes is so great as to merit special mention. One from Los Angeles to Dallas and Fort Worth is over 500 miles shorter than the one formerly used; another from the oil fields of Casper, Wyo., to Montana and Washington State points is 880 miles shorter; fruit from southern California to Ogden is hauled 201 miles less; and a new route between Kansas City and Galveston has been developed which is 289 miles shorter than the 1,121 miles previously traversed via one of the lines. The ore traffic moving from Minneapolis and Michigan mines to Lake Superior and Lake Michigan ports was rerouted with gratifying results. During the ore shipping season, a total of 64,770 loaded and empty cars were rerouted with a saving of 3,577,464 car-miles. A few other typical cases of shortening of routes follow:

Between—	Long route.	Miles.	Short route.	Miles.	Saving, in miles.
Duluth, Minn., and Chicago, Ill.	C., B. & Q.—N. P.....	606	Soo Line.....	465	141
Duluth, Minn., and Milwaukee, Wis.	C., M. & St. P.—N. P....	499	....do.....	376	123
Chicago, Ill., and Kansas City, Mo.	C. G. W.....	596	A., T. & S. F.....	458	138
Chicago, Ill., and Milwaukee, Wis.	C. & E. I.—M. P.....	573	C. & A.....	483	90
Chicago, Ill., and Mason City, Iowa.	Soo Line.....	145	C., M. & St. P.....	85	60
Chicago, Ill., and Fort Dodge, Iowa.	C. & A.—M. & St. L....	485	....do.....	356	129
Chicago, Ill., and Little Rock, Chicago, Ill., and St. Louis, Mo.	....do.....	490	C. G. W.....	373	117
Chicago, Ill., and Minneapolis, Chicago, Ill., and St. Paul, Minn.	C., R. I. & P.....	1,277	C. & A.—M. P.....	633	644
Minneapolis and Des Moines, Iowa.	C., R. I. & P. & St. L.	361	C. & A.....	284	77
Minneapolis and Kansas City, Mo.	C., R. I. & P.....	524	C. & N. W.....	408	116
Minneapolis and Omaha, Nebr.	I. C.—M. & St. L.....	503	C., M. & St. P.....	412	91
Minneapolis and Peoria, Ill.	C., B. & Q.....	614	C., R. I. & P.....	270	344
Minneapolis and St. Louis, Mo.	C., M. & St. P.....	666	....do.....	494	172
Portland, Oreg., and Ogden, Utah.	C., B. & Q.....	736	C., St. P., M. & O.....	377	359
Portland, Oreg., and St. Paul, Minn.	Soo-C. & A.....	609	C., R. I. & P.....	458	151
Everett, Wash., and Spokane, Wash.	....do.....	742	C., B. & Q.....	617	125
Billings, Mont., and Butte, Mont.	S. P. Lines.....	1,339	U. P. Lines.....	857	482
Billings, Mont., and Spokane, Wash.	U. P.—C. G. W.....	2,127	S. P. & S.—G. N.....	1,815	312
Butte, Mont., and Great Falls, Chicago, Ill., and Clinton, Iowa.	N. P.....	444	G. N.....	306	138
Chicago, Ill., and Sioux City, Iowa.	G. N.....	405	N. P.....	236	169
	....do.....	762	....do.....	613	149
	C., M. & St. P.....	387	G. N.....	171	216
	C., R. I. & P.....	259	C. & N. W.....	138	121
	C., B. & Q.....	615	I. C.....	509	106

In a few instances it has been necessary to increase the length of hauls temporarily to avoid accumulations.

By rerouting, a total of 10,863,633 car miles has been saved in the eastern and northwestern regions alone.

BETTER OPERATION.

The operating results may be summarized briefly: The railroads, during the first 10 months of Federal control, produced 1.9 per cent more ton-miles with a decrease of 2.1 per cent in train-miles and a decrease of 5.8 per cent in loaded-car miles. The average trainload increased from 655 tons to 682 tons, a gain of 4.1 per cent; and the average carload increased from 26.8 tons to 29 tons, a gain of 8.2 per cent.

The increase in traffic in 1918 was accomplished by the use of approximately 3.4 per cent more freight cars and approximately 1.4 per cent more freight locomotives than in 1917. Compared with 1916, the 1918 increase in freight cars was 6.9 per cent and the increase in freight locomotives was 2.4 per cent.

It should be explained that the total ton-miles handled are much less than they would have been in the past for a corresponding volume of traffic by reason of cutting out circuitous hauls. The general statement may be made that the actual transportation production is greater than is indicated by ton-mile statistics. In whatever degree the actual performance of moving tons from one place to another place as required is accomplished by moving the tonnage over shorter routes, to that degree the ton-mile statistics understate the real performance when they are compared with a period when the shorter routes were not used.

THE PERMIT SYSTEM.

Probably it would not have been possible to meet the enormous demands made upon the transportation system during the past year without the utilization of the permit system, which prevents the loading of traffic in the absence of assurance that it can be disposed of at destination. This is a reform which under Government control would succeed in peace times as well as in war times and is one of the most important means of preventing transportation stringency

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or congestion. It means controlling the traffic at the source in the public interest, instead of letting the traffic choke the public interest at destination.

WAR CHANGES.

Some of the means used to bring about the desired result were strictly war measures and probably could not or should not be utilized in time of peace. For instance, this is true with regard to the elimination of many passenger trains, although passenger trains run merely for competitive reasons are often wasteful and do not give the needed service to the public.

The Exports Control Committee, which has played a vitally important part in the proper handling of supplies for overseas shipment, probably could not be operated under peace conditions, although under unified control an important adjustment of traffic to port capacity will be practicable, even under peace conditions.

REFORMS WHICH SHOULD BE CONTINUED UNDER PEACE CONDITIONS.

Many of the changes in railroad operation inaugurated during the period of the last year should prove of permanent value and should continue, if possible, whatever form of control is decided upon for the railroads. Such reforms include:

1. The maintenance of the permit system so as to control the traffic at its source.
2. The maintenance of heavy loads for cars.
3. The pooling of repair shops.
4. The elimination of circuitous routes.
5. The unification of terminals.
6. The maintenance of the "sailing-day plan."
7. The consolidation of ticket offices.
8. The utilization of universal mileage tickets.
9. The standardization of equipment.
10. The maintenance of the uniform freight classification introduced by the United States Railroad Administration.
11. The maintenance of common time tables between important points.
12. The maintenance of high demurrage rates and uniform rules.
13. The establishment of through waybilling freight from point of origin to destination.
14. Rendering unnecessary the rebilling by connecting or intermediate routes.
15. The elimination of the old practice of paying in mileage or per diem rental for the use of freight or passenger cars of one carrier by another.
16. The simplification of the old practice of apportioning interline passenger revenue.
17. The utilization of water routes for the relief of crowded rail lines.

WASTEFUL COMPETITION.

Some of these reforms can be continued should the roads be returned to private operation; others can not. Competition and self-interest dictate that when the roads are under private control each carrier gets as much business as possible and keeps it, regardless of the fact that the aggregate result may be wasteful and uneconomical. For instance, where two or more competing lines operate between two important cities the convenience of the public can best be served if alternating trains be operated at short intervals over the different roads. Competition, however, always results in each of the roads "bunching" their trains at the times when the demand for transportation is the heaviest. Competing lines can hardly be expected to route freight over the lines of competitors, even though these competing lines may have the shorter route and be able to handle this particular traffic more economically. Lines with advantageous terminal facilities can not be expected under private control to place such facilities at the disposition of competitors operating under less favorable circumstances. One company will not forego loading and hauling traffic, even though this seriously embarrasses the general situation, because its connections can not conveniently receive and dispose of the traffic. Private carriers may not enforce rules which, although designed to bring about efficiency and economy, might drive business away from their lines. All the waste resulting from these practices and running into huge costs is paid for by the public in the form of increased rates.

PUBLIC-SERVICE FREIGHT BUREAUS.

Under private control of railroads and for competitive reasons practically all railroads maintain so-called off-line agencies, the original function of which was solicitation of traffic. These off-line agencies were abandoned by the Railroad Administration for the reason that the competitive causes which gave rise to their establishment no longer existed. It was found, however, that in some measure these agencies had performed real service to the public, and therefore the establishment of public-service freight bureaus has been begun with a force trained to handle for shippers matters which were formerly handled by the off-line agencies.

LABOR.

The participation of America in the European war, with the consequent shortage in man power available in this country and the increase in the cost of living, has made the railroad labor problem a difficult one during the past year. However, the great bulk of railroad labor has demonstrated a fine spirit of patriotism and has cooperated heartily with the Government. The labor troubles which were facing the railroads when they went under Government control were practically all eliminated, and, with a few exceptions, there has been quiet in the railroad labor world during the last 12 months.

In order to place railroad labor upon a living wage and provide fair working conditions an investigation into labor conditions on the railroads was begun immediately after the carriers were taken by the Government, with the result that many reforms in working conditions, decreases in the hours of labor, and increases in the rates of pay have resulted. These investigations have been continued since the machinery was set up for the thorough investigation and hearing of all grievance and representations about wages and working conditions. This machinery generally has recognized the so-called "bipartisan" principle of equal representations of employer and employee on boards. Decisions, however, have always been made by the director general, since he is charged with that responsibility as the chief representative of the Government. A director of labor was appointed in the person of W. S. Carter, president of the Brotherhood of Railway Engineers and Firemen, who was placed on an equal footing with the heads of other divisions.

The critical labor conditions are strikingly brought out in the report of the Railroad Wage Commission, composed of Hon. Franklin K. Lane, Secretary of the Interior; Charles C. McChord, William R. Wilcox, and J. Harry Covington, appointed January 18, 1918, to "make a general investigation of the compensation of persons in railroad service, the relation of railroad wages to wages in other industries, the conditions respecting wages in different parts of the country, the special emergency respecting wages which exists at this time owing to war conditions and high cost of living, as well as the relation between different classes of railroad labor."

This commission heard representatives of every class of employees, railroad officials, and experts on the subject, and examined hundreds of written statements and personal letters from employees. The requests presented to the commission for wage increases, if granted, would have involved an outlay of something over \$1,000,000,000 per year in excess of wages paid in 1917. In its report the commission, after reciting the various demands for wages made by railroad labor in 1916 and 1917 and reviewing increases given by the railroads under private control, said:

"But these advances were not in any way uniform, either as to employments or as to amounts or as to roads, so that one class of labor benefited much more than another on the same road, and as between roads there was the greatest divergence. The situation has been dealt with as pressure made necessary, and naturally those who by organization or through force of competition could exert most pressure fared best. Things came to a head just before the Government took over the railroads. Another three months of private management and we would have seen much more extensive concessions in wages, or there would have followed an unfortunate series of labor disturbances. The Government, therefore, has now to meet what would have come about in the natural course.

"Indeed, the patience of the men was only allayed after Government intervention by the assurance that the matter of wages would be promptly taken up and that the awarded increases would be retroactive as of January 1 of this year."

The commission also said:

"It has been a somewhat popular impression that railroad employees were among the most highly paid workers, but figures gathered from the railroads dispose of this belief: 51 per cent of all employees during December, 1917, received \$75 per month or less and 80 per cent received \$100 per month or less. Even among the locomotive engineers, commonly spoken of as highly paid, a preponderating number received less than \$170 per month, and this compensation they have obtained by the most compact and complete organization, handled with a full appreciation of all strategic values. Between the grades receiving from \$150 to \$250 per month there is included less than 3 per cent of all the employees (excluding officials), and these aggregate less than 60,000 men out of a grand total of 2,000,000.

"These, it is to be noted, are not prewar figures; they represent figures after a year of war and two years of rising prices. And each dollar now (the report was made Apr. 30, 1918) represents in its power to purchase a place in which to live, food to eat, and clothes to wear, but 71 cents as against the 100 cents of January 1, 1916."

WAGES.

Wage increases granted during the year are estimated to aggregate between \$600,000,000 and \$700,000,000 per annum and in a large part were retroactive from January 1, 1918. These wages were fixed not upon the theory that the railroads, a permanent industry, should compete in prices paid labor with the transient war industries, many of which paid very high wages in order to attract labor; rather the effort was made to find a just and equitable basis which would outlive the war and which would give a living wage and decent working condition to every railroad employee. Efforts have been made to eliminate inequality and, while this work has not been finished, it has been chiefly done.

CONDITIONS OF EMPLOYMENT.

On February 21 General Order No. 8 was issued, containing among other things the following:

"No discrimination will be made in the employment, retention, or conditions of employment of employees because of membership or nonmembership in labor organizations."

This has had the effect of many railroad employees joining labor unions who previously were not affiliated with them. At the same time equal consideration has been shown employees who were not members of unions, and individual employees have been heard on an equality with representatives of the unions. The principle of the eight-hour day was recognized early and strengthened whenever possible.

Special efforts have been made to better the working conditions of the women in railroad service, and a special woman's section was established in the Labor Division to investigate conditions surrounding women so employed and apply remedies where unfavorable conditions were found to exist. In General Order No. 27 it was ordered that:

"When women are employed the working conditions must be healthful and fitted to their needs. The laws enacted for the government of their employment must be observed, and their pay, when they do the same class of work as men, shall be the same as that of men."

In the same order it was provided that where negroes performed the same service as whites they should receive the same pay as whites.

LABOR SHORTAGE.

The necessity for manning the American military railways in France with trained American railway men and the induction into other branches of the Army and Navy through voluntary enlistments or through the draft of many railroad employees added to the difficulties throughout the year, since at no time in the history of the American railroads has there been a greater need for trained and skilled railway help than during the war period. This difficulty was greatly increased by the influenza epidemic during the last half of the year, which very seriously interfered with the operation of the railroads for several months.

EXPENDITURES FOR CAPITAL ACCOUNT.

On February 2, 1918, all lines under Federal control were directed to prepare and send in budgets of improvements immediately required to increase capacity and efficiency and to promote safety in operations; and in the letter of instructions the following policy was prescribed:

"In determining what additions and betterments, including equipment, and what road extensions should be treated as necessary, and what work already entered upon should be suspended, please be guided by the following general principles:

"(a) From the financial standpoint it is highly important to avoid the necessity for raising any new capital which is not absolutely necessary for the protection and development of the required transportation facilities to meet the present and prospective needs of the country's business under war conditions. From the standpoint of the available supply of labor and material, it is likewise highly important that this supply shall not be absorbed except for the necessary purposes mentioned in the preceding sentence.

"(b) Please also bear in mind that it may frequently happen that projects which might be regarded as highly meritorious and necessary when viewed from the separate standpoint of a particular company may not be equally meritorious or necessary under existing conditions, when the Government has possession and control of the railroads generally, and therefore when the facilities heretofore subject to the exclusive control of the separate companies are now available for common use whenever such common use will promote the movement of traffic."

The budgets submitted in response to this called for expenditures chargeable to capital account—that is, exclusive of large sums chargeable to maintenance—amounting in the aggregate to \$1,329,000,000, which, upon careful revision, was reduced to \$975,000,000. This amount has been increased from time to time by new and unforeseen requirements, and particularly by large orders for locomotives and freight cars, until the improvements definitely authorized to December 1, 1918, amounted to \$1,254,396,158. Of this amount, \$551,925,525 is for additions and betterments, \$656,048,745 for equipment, and \$46,421,888 for construction of extensions, branches, and other lines.

The expenditures thus authorized were for improvements, classified as follows:

Class of work.	Improvements authorized to Dec. 1, 1918.	Capital expenditures made to Nov. 1, 1918.
ADDITIONS AND BETTERMENTS.		
1. Widening cuts and fills, filling trestles, etc.	\$7,639,469	\$3,694,433
2. Ballasting	9,852,098	4,017,570
3. Rails and other track material	32,755,702	13,024,510
4. Bridges, trestles, and culverts	40,637,677	20,970,333
5. Tunnel and subway improvements	4,041,967	879,371
6. Track elevations or depressions	15,278,146	3,126,307
7. Elimination of grade crossings	12,175,753	3,546,618
8. Grade crossings and crossing signals	3,670,222	993,300
9. Additional main tracks	62,632,363	25,378,978
10. Additional yard tracks, sidings, and industry tracks	125,806,775	47,534,458
11. Changes of grade or alignment	9,089,621	2,887,221
12. Signals and interlocking plants	16,796,192	5,339,360
13. Telegraph and telephone lines	5,789,737	2,395,406
14. Roadway machinery and tools	1,979,206	1,167,708
15. Section houses and other roadway buildings	3,058,495	2,119,588
16. Fences and snowsheds	2,198,411	835,903
17. Freight and passenger stations, office buildings	47,963,570	15,690,785
18. Hotels and restaurants	754,674	297,803
19. Fuel stations and appurtenances	8,230,725	3,197,554
20. Water stations and appurtenances	11,879,643	5,046,824
21. Shop buildings, engine houses, and appurtenances	57,229,596	22,627,659
22. Shop machinery and tools	21,585,247	6,383,153
23. Electric power plants, substations, etc.	22,454,729	5,742,126
24. Wharves and docks	5,163,936	874,390
25. Coal and ore wharves	5,532,234	3,621,739
26. Grain elevators and storage warehouses	2,747,693	2,111,911
27. Real estate	4,208,132	1,205,014
28. Assessments for public improvements	3,003,271	1,385,321
34. All other improvements	7,814,181	4,473,332
Total (excluding equipment)...	551,925,525	210,568,673

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Class of work.	Improvements authorized to Dec. 1, 1918.	Capital expenditures made to Nov. 1, 1918.
EQUIPMENT.		
35. Locomotives, steam.....	118,051,766	57,256,639
Locomotives, steam (ordered by Railroad Administration).....	76,873,355	28,621,655
36. Locomotives, other.....	2,360,538	888,772
37. Freight-train cars.....	97,186,552	70,221,661
Freight-train cars (ordered by Railroad Administration).....	289,480,000	59,193,472
38. Passenger-train cars.....	15,896,432	11,028,462
39. Work equipment.....	7,677,891	1,748,404
40. Motor car and trailers.....	567,558	58,164
41. Floating equipment.....	5,415,350	650,411
42. Miscellaneous equipment.....	629,621	276,169
43. Improvements to existing equipment.....	41,939,382	18,499,064
Total equipment.....	656,048,745	248,442,873
44. Construction of extensions, branches, and other lines.....	46,421,888	18,199,466
Total all work.....	1,254,396,158	477,211,012

In planning improvements chargeable to capital account other than for war purposes the rule adopted was that the first consideration should be safety in operations; and, secondly, increased capacity where that was needed; and that any improvement not required for these purposes should be deferred until after the war unless exceptional circumstances should make it necessary earlier. Improvements designed to effect permanent economies have been left for the favoring times and conditions of peace, unless the economy was so great that substantially the entire cost could probably be saved during Federal control.

That effect of the foregoing policy is shown by the above statement, from which it appears that much the largest item was for additional yard tracks, sidings, etc. The second largest item was for shop buildings, engine houses, and appurtenances, and the third for additional main tracks, and by the large orders for equipment almost wholly for locomotives and freight cars.

In addition to the locomotives and freight cars under order by the railroad companies at the time the Government assumed control, additional orders were placed for 1,430 locomotives for 1918 delivery, at an estimated cost of \$78,193,200, of which 542 have been delivered by the builders, and also an order for 100,000 freight cars for 1918 delivery, at an estimated cost of \$289,460,000, of which there has been completed and delivered to date 14,650 cars. An additional order for 600 locomotives for 1919 delivery has also been placed, involving an expenditure of approximately \$37,842,268. At the time these orders were placed it was supposed that the war might last much longer than the year 1918. Practically all of this equipment has been assigned to those railroads whose need for additional power and equipment appeared to be the greatest.

COST OF COAL AND OTHER SUPPLIES.

The cost of coal and practically all other supplies used by the railroads increased enormously during the year just passed as compared with the cost during the year 1917. The increased cost of fuel for the first 10 months of the present year was \$140,000,000 over the cost for the same 10 months in 1917, and during the same period the cost of crossties and lumber increased approximately \$65,000,000. The added cost of coal to the railroads increased in spite of the fact that economy in the use of coal was exercised to such an extent that, for instance, on the Chicago & North Western Railroad during the month of October the number of pounds of coal per passenger locomotive mile was 110.9 this year, as compared with 124.3 last year, and the number of pounds of coal per passenger train car mile was 19.2, this as compared with 21.3 last year, and yet the cost of locomotive fuel per locomotive mile was 34.9 cents in October, 1918, as compared with 27.9 cents in October, 1917.

On the Union Pacific, during the same month, the number of pounds of coal per passenger locomotive-mile this year was 115.6 as compared with 131.8 last year. On the same line, during the same month, the number of pounds of coal per passenger train car-mile was 13.6 this year as compared with 18.2 last year, and yet the cost of fuel per locomotive-mile was 33.2 cents in Octo-

ber, 1918, as compared with 32.6 cents in October, 1917. On the Chesapeake & Ohio Railroad the number of pounds of coal per passenger locomotive-mile during the same month was 142.6 this year as compared with 136.1 last year. The number of pounds of coal per passenger-train-mile on the same road during the same month was 24.4 this year as compared with 24.9 last year, and yet the cost of fuel per locomotive-mile was 35.3 cents in October, 1918, as compared with 29.8 cents in October, 1917.

THE INCREASE IN RATES.

The increases in wages and the greatly enhanced cost of coal, iron, and steel and other supplies necessary for the railroads, made necessary the increase of both passenger and freight rates during the period of Federal control. Flat percentage increases were necessary to obtain the required revenue, but continuing and successful efforts have been made since to eliminate inequalities naturally incident to the adoption of such a plan. These new rates did not go into effect until practically six months of Federal control had passed, and, therefore, only approximately six months' benefits have been gained from them during the past year, whereas increased cost of labor, coal, and other supplies has operated during the entire year. Economies in operation and in organization have resulted in enormous savings, but have not fully met the difference between the cost of operating the railroads and the income, for the reason stated. The benefit of these savings will not be fully realized until the operations for the year 1919 are completed. Very little benefit has been received in the year 1918.

INCREASED COST NECESSARY.

The increases in cost of operation which have occurred in the period of Federal control undoubtedly would have been equally operative had the roads remained under private control. If the private owners had operated the railroads during the past year they either would have had to increase the rates, as the Government did, or they would have had to face an enormous deficit.

FINANCIAL.

From the reports of operations for 10 months ending October 31, 1918, and with November and December estimated, the net operating income of the roads under Federal control will be less by approximately \$136,000,000 than the standard return or annual rental which, under the law, the Government pays for the use of the railroads. This deficiency is remarkably small in the circumstances, because the increases in freight and passenger rates were in effect for only a little more than six months of 1918, whereas increased wages and increased cost of fuel and all other railroad supplies were in effect for the entire 12 months. If the increases in freight and passenger rates had gone into effect January 1, 1918, or at the same time that the increased wages and cost of fuel and supplies went into effect, it is estimated that there would have been a substantial surplus for the year of at least \$100,000,000 to the Government.

For the year 1919, with all wage increases granted in 1918 operating for the entire 12 months, and upon the assumption that the traffic for 1919 is substantially the same as in 1918, and that the cost of fuel and supplies remains the same, it is estimated that there should be a surplus to the Government over and above the standard return of approximately \$100,000,000. It is to be expected, however, during the year 1919 the cost of material and supplies may be reduced, and it is also reasonable to expect that with improved operation, under normal conditions, relieved of the intense pressure and excessive cost incident to the war necessity, and with a general improvement in operations and use of facilities and equipment that may be reasonably expected in peace time, many more economies can be effected. Since the object of the Government should be at all times to operate the railroads not for profit, but at cost, and to render at the same time the best possible service, I confidently believe that it will be possible during the year 1919, or certainly at the end of the year 1919, to effect a considerable reduction in rates unless the traffic for 1919 should be much less than it was in the year 1918.

INLAND WATERWAYS.

Hundreds of millions of dollars have been expended by the Nation, the States, and citizens for the purpose of developing our inland waterways and for the

construction of canals. Thousands of miles of rivers, canals, lakes, and bays are ready to assist in moving our products. These waterways, with the exception of the Great Lakes, are not being extensively used.

With the assumption of my present task, I appointed a committee to make a prompt investigation and to suggest a definite plan for the additional use of internal waterways, for the economical and expeditious movement of the traffic of the country, so as to relieve or supplement the railways under the conditions caused by the war. This was the beginning of a program which has been constantly pursued, and, while the greater urgency for raw materials in war work interfered with the construction of steamers and barges, 160 steel, wood, and concrete vessels are now building and 50 steel and wooden craft have been purchased. The total appropriation for old and new floating equipment exceeds 11½ millions.

The increased responsibilities of this country in the family of nations will demand greater commercial activity on our part. Transportation is a major problem, for, on account of the extensive area of our country, we have a longer average haul to seaboard than other industrial commonwealths. It has seemed to me evident that by developing transportation on the waterways and coordinating and articulating them with a unified railway system we shall bring about a correct solution of the rail-water controversy, which has been in progress for 50 years. This is possible with the railways under Federal control. I doubt if any of our rivers or canals will become active factors of transportation if the railroads are turned back to private control. The old methods of railway competition with the waterways doubtless will be revived, and the waterway experiment may not be able to survive that competition.

In furtherance of the plans for waterways transportation a Division of Inland Waterways, with two subdivisions, was created—the Mississippi-Warrior and the New York and New Jersey canal sections.

Mississippi River.—Service on the Mississippi was inaugurated September 28 with 34 vessels. Of these, 23 are leased and 11 were purchased. The service is developing satisfactorily and, as tariffs for joint rates with the railroads have just been promulgated, the valley will be afforded traffic privileges not possible in the days of railroad competition. Six steel steamers, or towboats, and 40 2,000-ton steel barges are under construction for this service. The capacity of the Federal fleet between New Orleans and St. Louis will approximate 1,000,000 tons annually.

Warrior River.—Nine steamers and 24 barges were purchased for Warrior River service. Six steamers and 20 barges are about to be constructed. This fleet will be capable of carrying 600,000 tons southbound and about 150,000 tons northbound. The Federal improvements on the Warrior are complete as to 6 feet of water, and will shortly be completed as to 8 feet navigable craft.

New York Barge Canal.—The congestion existing on the railroads in the early part of 1918 and the war emergency made it essential to prepare, so far as possible, for such use of this important waterway as might be necessary to assist the railroads, and although it was announced officially that the canal was completed, there was practically no private building of equipment for use on the canal, and many of the old boats were being diverted to other uses. During the season the Railroad Administration leased and operated upward of 200 barges on the New York State Barge Canal, and contracted for the construction of 51 steel and 21 concrete barges. Delivery of the new barges began in December. Construction was delayed on account of the war requirements for steel. It turned out that the canal had only 7 feet navigable depth at the opening and it was not until midsummer that all the boats could be loaded to full capacity for operation, and, as the terminals and rail connections were unfinished, an economical operation was not possible. In fact 8½ feet of navigable depth was the maximum in the canal during the season. The rail congestion of last winter was relieved before the canal season opened. The suspension of imports, the decrease in road and industrial building, and the deficiency in the grain crops of 1917, affected very seriously tonnages that under normal conditions are available for this waterway. In compliance with very urgent requests of the people of the State of New York a local packet freight service was installed between Troy and Buffalo. As suitable boats were not obtainable, and as the terminals were in some cases unfinished and in others inaccessible, it was apparent that the operation would not be profitable, and results justified this view. It is to be noted that, although the enlarged canal was in operation all season, no activity was displayed on the part of individuals or corporations to build vessels.

The Railroad Administration has repeatedly announced that it does not assume to control nor does it in any way discourage the operation of privately operated barges, nor does it fix the carrying rate for independent vessels. When the canal and its facilities are completed, and when modern vessels are available, it will be possible to ascertain the cost of transporting traffic on this waterway. The results obtained during this formative stage, with the unavoidably antiquated equipment, are not a criterion of what can be accomplished with a completed canal and modern equipment. The adjustment of shippers and their facilities to the use of the canal is also a matter of time, which could not be progressed rapidly with the conditions existing during the present season.

Delaware & Raritan Canal.—The Delaware & Raritan Canal, connecting the Delaware River with New York Harbor, from 1913 up to the present year suffered a steady decrease in business. In 1917, 272,734 tons of freight were moved. The limited draft of water and small lock structures prevented profitable transportation operation on this waterway. It became evident last spring that there would be a marked decrease in the use of the canal for transportation of coal, due to the fact that coal was to be shipped via other routes, but there was an unusual demand for transportation of miscellaneous freight between New York and Philadelphia by this route. The canal has for many years been under lease to the Pennsylvania Railroad Co., and came under Federal control as part of its transportation system. In July the New York-New Jersey canal section took charge of the floating power equipment of the Railroad Administration on the canal, and December 1 the operation and maintenance of the canal was transferred to that section. The Railroad Administration also operated a fleet of packet freight ships during a part of the season. There are a number of private transportation agencies operating on this canal. In spite of the loss of coal tonnage, the total freight movement on the canal will slightly exceed 1917.

Chesapeake & Ohio Canal.—The Chesapeake & Ohio Canal, connecting Chesapeake Bay with Pennsylvania and West Virginia coal fields, has been operated at a loss for several years. At the beginning of the season of 1918 it appeared that unless action was taken to support navigation on this canal the increasing costs would cause it to cease, while the pressure of traffic at that time upon the railroads bringing coal to Washington and vicinity was so great as to make it very undesirable that they have the additional burden of transporting the coal previously carried by the canal. The Railroad Administration therefore for a time assumed the cost of canal tolls on coal, and later on made an arrangement with the only company operating boats on the canal which insured the maintenance of the service, the Railroad Administration paying the actual cost of the service over and above the freight charges which were paid by the shipper at the same rate as for rail shipments. The Railroad Administration also furnished 10 new barges, which were leased to the operating company.

Ohio River.—The Railroad Administration has established an office in Cincinnati, Ohio, for the purpose of cooperating with shippers and vessel owners and studying traffic conditions with shippers and vessel owners. In view of the fact that the projected locks and dams on the Ohio River between Pittsburgh and Cairo are not completed (the movement has not been finished even between Pittsburgh and Cincinnati) it does not seem a proper time to consider any new equipment for this route.

Lake Keuka-New York.—The service formerly operated on this lake by the Lake Keuka Navigation Co. had been discontinued, and in order to move the grape crop of 1918 the Division of Inland Waterways operated equipment of the Lake Keuka Navigation Co. during the grape season.

Intracoastal waterways.—The intracoastal waterway from Philadelphia to Beaufort, N. C., will be susceptible of greater commercial development. The projected improvement between Norfolk and Beaufort will not be completed for some time, and it will require at least two years to modernize the Chesapeake & Delaware Canal. The improvement ought to be authorized promptly, and I hope that the Congress may grant the necessary appropriation and power to deal with the matter. The fleet operating along this route was commandeered to a considerable extent during the war, but the vessels are being slowly returned to the owners. The fleet seems to be sufficient for normal conditions. The capacity can be considerably increased by the introduction of modern terminal methods. Ultimately, packet freight service on this route may be practicable.

COASTWISE SHIPS.

The fleets of vessels of railroad ownership were augmented on April 13, 1918, by the taking over of the vessels of the Clyde, Mallory, and Southern Steamship Cos. and the Merchants & Miners' Transportation Co., comprising 64 passenger and cargo-carrying vessels, operating in coastwise service between various ports—Boston, Mass., to Galveston, to inclusive. The operation of the vessels was at times seriously interfered with by German submarines. In supporting the war policy of the Nation the steamships under Federal control were used ports—Boston, Mass., to Galveston, inclusive. The operation of the vessels and Southern Steamship Cos. and the Merchants & Miners' Transportation Co. were relinquished from Federal control on December 6, as they are no longer necessary to the war purpose.

CAPE COD CANAL.

The Cape Cod Canal was taken under Federal control July 25, 1918, and it is earnestly hoped that it will be operated in the future by the Government. Formation of shoals had reduced its navigable depth to 17 feet at mean low water when the Government took control, but the Railroad Administration immediately provided \$250,000 for dredging, piling, bank-protection work, etc., and on October 23 the canal was opened for vessels drawing 20 feet 6 inches of water, and the dredging necessary to restore the original depth of 25 feet at mean low water is expected to be completed by February 15, 1919. Improvements have been made, including the installation of bank protection by granite riprapping. In spite of the fact that the work on the canal has not been entirely completed there has been an increase of 56.4 per cent in the number of vessels handled and 114 per cent in the cargo tonnage transported through the canal in 1918 as compared to 1917.

STANDARDIZATION OF LOCOMOTIVES AND CARS.

Before Government control practically every important railroad had its own specifications for cars and engines. Practically all were different in details. Although the facts are not obtainable it has been said that there were 20,023 different styles of freight cars and almost as many different styles of locomotives included in the equipment of American railroads prior to the war. Complete standardization, of course, is impossible, but as rapidly as existing rolling stock and engines wear out, it ought to be practicable to replace them by standard types. During the period of Federal control progress has been made. Some 12 standard types for freight cars have been agreed upon, and it has also been decided that hereafter only six different types of locomotives of two weights each shall be purchased. The parts of these various locomotives and freight cars, respectively, are interchangeable. The importance of this is forcibly illustrated by an instance where a leased locomotive was held out of service until over \$4,800 had accumulated, awaiting a part which would cost not to exceed \$30. Where peculiar conditions exist, however, and where special types of locomotives are necessary permission has been given to depart from the standardized type of locomotive.

CIVILIAN INCONVENIENCES.

While such a great work was being performed, inconveniences to civilian travelers and some interferences with the transportation of ordinary freight in the United States were unavoidable. The war necessity came first; the civilian needs of America second. With a limited supply of passenger and freight equipment available, and with a large proportion of this equipment needed for the movement of troops and war supplies, there were not sufficient cars and locomotives remaining to fully meet civilian needs; nor was there time nor materials nor labor to build them. This was explained to the country early in the year, and during the period of the war the people generally, when they realized the situation, patriotically accepted it and made sacrifices accordingly.

Whatever inconveniences have resulted are due entirely to war conditions and are in no way related to the fact that the railroads were under Government control. Such inconveniences undoubtedly would have been greater under private control, for the supply of equipment was augmented by the ability of

the Government to shorten routes, to combine facilities, to pool equipment and motive power, and to introduce economies which the roads under private control could not, and would not, have introduced.

I desire to make this point as clear as possible, for it is necessary for the American people to understand the facts of the railroad situation if this big problem is to be dealt with intelligently. Passenger equipment while crowded during the war, was crowded because much of the equipment had to be used in the transportation of troops; it was not crowded because the Government had control of the railroads. As a matter of fact, many thousands of passenger-train miles were saved by the ability of the Government to achieve results which private owners of the roads could not or would not have achieved. During the period of Federal control every possible economy was exercised in order to save both passenger and freight equipment and make as many cars and locomotives as possible available for the war need first, and for the needs of the civilian population next.

SERVING THE PUBLIC.

While putting the paramount war needs of the Nation first, nevertheless, every possible effort has been made by the railroads under Federal control to serve the public adequately and furnish every possible facility for carrying on the ordinary passenger and freight business of the Nation. The railroads are public servants, and in time of peace the first consideration should be to furnish adequate service at the lowest possible cost. To keep in touch with the public during the period of Federal control and see to it that their needs were given every possible consideration, the Division of Public Service and Accounting was established soon after the railroads were taken over and Hon. Charles A. Prouty was made director of the division. With this object in view, traffic committees were early established, upon which the public was given representation. While these committees have no authority to change rates, nevertheless their advice and recommendations are most helpful. What the shipping public desires above everything is stability of rates and reliability and adequacy of service. In the past thousands of rate changes have been made each month which were worse than unnecessary. While passenger and freight service was of necessity interfered with during the year, efforts have been made during the past year to keep in touch with State railroad commissions and other local bodies to make certain that well-grounded and important complaints should receive prompt attention.

I have given you a statement of the transportation conditions a year ago, of the transportation achievements under Federal control during a year of war, and of the present situation.

THE FUTURE.

What remains to be considered is what permanent solution of the railroad problem should be adopted and what shall be the temporary form of railroad control pending a permanent solution.

In December, 1917, there were about 180 separate operating railroad companies in the United States with operating revenues of \$1,000,000 or more per year each; 73 of these companies had operating revenues of \$10,000,000 or more per year each. There were several hundred companies whose respective operating revenues were less than \$1,000,000 per year.

POSSIBLE SOLUTIONS.

Broadly speaking, there are three general permanent solutions of the railroad question. The first is to send the railroads back into the private control of the several hundred old companies. The second is to have outright Government ownership and control of all the railroads. The third is to reconstruct the railroad map along logical lines, so as to wipe out these hundreds of different railroad companies and substitute a comparatively few companies, which under strict and close Government control can be expected to combine the advantages of Government control, including unified control of those things where it is needed, with the advantages of the initiative of private management. I am not committed to any particular plan. I wish to lay before you certain reforms which I think are indispensable and without which any so-called solution of the railroad problem will be a mere disappointing makeshift.

POLICY.

I am frank to say I do not believe that these important reforms can possibly be accomplished if we are to have in the future several hundred different railroad companies as we have had in the past, or even a hundred, or even fifty different railroad companies. I believe they can all be accomplished either through a comparatively few railroad companies or through single Federal control. If the country prefers to continue in existence the hundred of different railroad companies as in the past, I believe it will be necessary for the country to abandon the hope of obtaining most of the fundamental reforms which I propose to point out.

THE TERMINAL PROBLEM.

One of the most difficult and important railroad problems in this country is the problem of terminal facilities. It probably means more to the producing and consuming public in the matter of delays, inconvenience, and transportation burdens than any other phase of transportation. It is generally understood that the delays and excessive costs do not occur principally on account of insufficiency of facilities on the road, but on account of inadequate terminals and of the heavy terminal costs.

It is not unnatural that this should be the case. It is a far simpler proposition to haul a train over a railroad than it is to break up that train in a terminal and distribute its cars to the connecting carriers. For one thing, it is easier to provide adequate track capacity on the railroad itself, most of which runs through the country, than it is to provide adequate track capacity in a terminal, which is generally in the midst of a great city. But an even more important point is that when the train is being carried over the railroad between terminals it is being handled exclusively under one management and on a railroad which has been planned with unity of purpose. But the moment a train gets into a terminal where its cars must be separated and delivered to connecting lines, then we have to deal with facilities which have not been planned with unity of purpose and which under private control are not operated under a single management. The ability of one company to get rid of the business depends upon what its connecting companies have provided in the way of terminal tracks and other terminal facilities, and upon the way in which those connecting companies carry on their operations. It is human nature that each company is much more interested in looking after its immediate exclusive interests, both in the facilities which it provides and in the way it operates them, than it is in building and operating its property so as to help its connections.

Generally speaking, the cities of this country and the railroad traffic that passes through them have wholly outgrown the railroad terminal facilities, which were provided many years ago without any conception of the growth of the country's traffic. It is difficult to get the land to expand the terminals of any one railroad and each railroad company is jealously trying to prevent some other railroad from getting the advantage in new terminal facilities. Each railroad company wants to plan its new terminals so as to help its own business and so as not to help its rivals. It is true that at times under pressure of critical necessity some of the railroads at some cities try to combine a portion of their terminal plans into a joint terminal enterprise. But it takes years for the railroads to agree on any such matter, and the comprehensiveness of the particular plan is generally interfered with by the selfishness of some particularly powerful railroad which feels that it can preserve certain advantages by refusing to put into the joint plan certain facilities which ought to be put there in the public interest.

The effect is that when it comes to terminal properties we get a clear-cut conflict of interest between the public and any particular railroad company. The public wants terminal facilities comprehensively planned and carried out so as to promote the greatest convenience and economy for all concerned, but each railroad company is anxious to preserve any particular advantage which it already has and to increase that advantage when practicable. This clash of interests between the public and any particular railroad company, and between the different railroad companies serving a particular terminal, operates to produce deadlocks which to a large extent prevent terminals from being developed so as to meet the business necessities and so as to serve the public to the greatest advantage.

The condition exists, and is largely accounted for by the reasons above given, that the outstanding shortcomings in railroad transportation are inadequacies in terminal facilities. The great unnecessary burdens in the matter of inconvenience, delay, and cost for which the producing and consuming public have to pay are largely due to these terminal conditions. There can be no successful solution of the railroad problem which does not provide a solution for these terminal difficulties. The greatest opportunity to reduce railroad costs for the future and to promote public convenience in transportation for the future will be found in the solution of these terminal problems.

CINCINNATI—AN EXAMPLE.

A concrete illustration will help to emphasize the present difficulties. Cincinnati is an important gateway between the North and the South.

Three important railroads, the Chesapeake & Ohio, the Louisville & Nashville, and the Cincinnati Southern, reach Cincinnati by crossing the Ohio River. Four other important railroads, the Big Four, the Baltimore & Ohio, including the old Cincinnati, Hamilton & Dayton, the Pennsylvania, and the Norfolk & Western, reach Cincinnati on the north bank of the Ohio River. The interchange of traffic between these lines at Cincinnati is enormous, and the general public has a vital interest in this interchange being accomplished with the least possible delay and expense. Yet conditions are such that in times of heavy traffic Cincinnati is badly congested with freight, and the ability of all the railroads mentioned, not only with respect to handling traffic through Cincinnati, but with respect to handling other important traffic, is largely hampered by the inability to get rid of the traffic which must pass through Cincinnati.

Each of the three railroads approaching Cincinnati from the South has a bridge across the Ohio River. The Cincinnati Southern bridge and the Chesapeake & Ohio bridge are so light that they can not accommodate the heavy locomotives which are used on those roads, so that there must be delay and cost and congestion due to the necessity for changing engines south of the Ohio River on those two roads. The Louisville & Nashville has the use of a bridge which has only a single track and is therefore entirely too restricted in capacity to handle the traffic. The topographical conditions in Cincinnati are such as to make it exceedingly difficult to find suitable ground upon which to construct terminal facilities, and the densely populated area make terminal facilities extremely costly. A considerable part of the important terminals in Cincinnati is subject to overflow in time of high water. To a very large extent the traffic which any one railroad brings into Cincinnati is traffic which must be moved beyond Cincinnati by some other railroad, so that more than one railroad generally has an interest in providing proper facilities for all the traffic moving through Cincinnati, and all the railroads reaching there have a common interest in avoiding the congestion at Cincinnati which in the past has constituted one of the most serious traffic situations in the country. Yet each of the railroad companies has its separate facilities, and while there have been various particular arrangements of a joint character, it still remains true that in all the years that have passed, the railroad companies under private management have never been able to get together and put into effect any comprehensive plan which would result in terminal facilities equal to the situation. It seems fair to conclude from the failure of the railroad companies in the past to accomplish this result that they probably never will accomplish it in the future under corresponding methods of private management.

At the present time there are perhaps from 25 to 30 freight houses in and around Cincinnati which, generally speaking, have been provided primarily for the particular use of separate railroad companies and without any purpose of combining all the freight-house facilities so as to serve the general public to the best advantage and at the least cost.

NECESSITY OF FINDING REMEDY.

It is evident that in view of the common interest which the railroad companies have in the traffic passing through Cincinnati some comprehensive plan ought to be worked out. No one railroad company can live to itself alone in a terminal like Cincinnati. No one important structure should be planned simply from the standpoint of a particular railroad company. The entire situation should be dealt with from the standpoint of the general

public interest, and the selfish interests of any particular railroad company ought to be subordinated to the general interest. Yet under private management there is no way whatever in which the public can properly assert and accomplish its needs, and the result both in construction of facilities and in operation is left to the haphazard plan of the conflicting ideas of seven or more separate railroad companies and plans of the utmost importance are subject at any time to be defeated by the disagreement of one or more of these companies.

\$45,000,000 NEEDED AT CINCINNATI.

It is estimated that there ought to be spent in the near future about \$45,000,000 in the rehabilitation of Cincinnati terminals, so as to make them equal to modern public needs, with probably \$25,000,000 additional for passenger terminals. This involves the building of a new bridge and the reconstruction and enlargement of two other bridges, the construction of convenient and commodious freight houses, the provision of adequate belt lines and adequate facilities for intercommunication between the different railroads. Practically every item of this large expenditure involves, directly or indirectly, the interests of two or more separate railroad companies. In fact, virtually the whole expenditure has to be made in the common public interest and without making the interest of any one railroad company paramount as to any particular item. If this matter is left to be worked out by the separate railroad companies without any controlling public authority to shape up the whole situation for the benefit of the general public there is no reason to believe that it ever will be successfully worked out. Certainly the railroad companies have had many years in which to work out the problem, and they have never done so. If the problem is not adequately solved, the result will be that a great burden of delay and inconvenience, uncertainty, and cost will continue to rest upon the people of the United States, simply because a thing which ought obviously to be done at Cincinnati in the public interest is not done, and it will not be done because the power of government which ought to be exercised to promote the public interest is allowed to remain dormant and subordinate to the separate interests and to the disagreements of various privately managed railroad companies.

SAME CONDITIONS ELSEWHERE.

What is true of Cincinnati is true to a large extent of every important terminal in the country, particularly of Chicago and the terminals around New York Harbor. In the aggregate these situations constitute a great burden and menace to rail transportation and a serious obstacle to convenience and certainty to the public in the performance of that transportation. These situations must be met if transportation in this country is to be performed at a reasonable cost and without the intolerable congestions and delays which have periodically arisen in the past.

Nor is there any just reason why railroad companies should fear that such a comprehensive development of terminals is going to interfere with any legitimate separate interests of the railroad companies in the event they shall eventually be turned back into the old form of private control. Any comprehensive plans of terminal improvement which are for the general public good will in the long run turn out to be advantageous to every separate legitimate railroad route in the country. No matter if the railroads do go back into the old form of private control, with anywhere from 100 to 200 separate managements, it is inevitable that in the long run, and perhaps as the result of long years of hardship upon the public, there must be some comprehensive legislative solution of these terminal problems in the general public interest. The railroads will not be injured, but, on the contrary, will be benefited by a prompt public dealing with these matters.

OTHER EXAMPLES.

As a simple illustration, it is evident that the fact that the Baltimore & Ohio passenger trains are now taken into the Pennsylvania passenger terminal in New York has not resulted in injuring the Baltimore & Ohio or in causing any injury to the Pennsylvania of which it has any right to complain. The public has been enormously inconvenienced. If private control should return, it is not

to be anticipated that the public would again be subjected to the inconvenience and delay and expense incident to the Baltimore & Ohio going back to the use of its old and inconvenient passenger terminal at Communipaw, N. J. These terminal reforms, which are done in the public interest, will not only be of immediate and lasting benefit to the public but they will also turn out to be more than acceptable to the railroad companies themselves.

TRANSPORTATION STRINGENCY THROUGH FAILURE TO CONTROL TRAFFIC.

The situation exists in this country that the transportation needs of the people are national and interdependent, despite the fact that the railroads are local and independent. Practically every community in the country is dependent upon a national and not a local transportation service. It is not true of any community that it can depend wholly, or even principally, upon its local railroad to transport what it produces and what it consumes, because, directly or indirectly, what it produces must in some form go far beyond that railroad, and what it consumes must in some form originate beyond that railroad. Failure of transportation at the Atlantic seaboard causes economic waste and suffering at points far beyond those served by the railroads which reach the Atlantic seaboard. Extensive failure of transportation in any part of the country has corresponding reactions in many other parts of the country.

Unavoidably, the amount of transportation to be performed fluctuates from season to season, and between good years and bad. At certain seasons, especially in prosperous years, the railroads are confronted with a "peak load," or a maximum load, which they have not been able in recent years to handle satisfactorily under private management. There has been widespread congestion of cars, both loaded and empty, in certain sections, the most acute shortage of cars in other sections, an inability to furnish transportation urgently demanded, an inability to get the freight which has been accepted for transportation to destination in reasonable time. In short, we have been confronted with periodic conditions of transportation stringency. Diversified private management has proved that it can not avoid or meet these conditions.

Perhaps the greatest single difficulty is that under private management, with each company trying to prevent any traffic going to a rival, the amount of freight loaded has been dependent almost wholly upon the desire and opportunity of the consignor to load a shipment and get a bill of lading for it, without any regard whatever to the ability of the delivering railroad to dispose of the traffic at destination at that time, or of the ability of the consignee to receive the traffic, if delivered. The result has been the indiscriminate throwing into the stream of traffic of everything which consignors wished to throw into it, and this has led to the most acute congestion at or near destination, analogous to an "ice jam" or "log jam" in a river. This consequence has been injurious to the public as a whole, because it has reduced transportation capacity far below what it ought to be; has led to the greatest uncertainty and delay and consequent interruption and injury of business, with direct disadvantages to labor and to the producing and consuming public. It is apparent that this fundamental difficulty has not been effectively dealt with under diversified private management. It is difficult to see how any railroad company would be willing deliberately to prevent the loading of traffic on its own line when it is able to handle that traffic, simply because eventually the traffic may be a source of embarrassment to some connecting line. Indeed, it has been found practically impossible for a railroad company, which is itself congested with traffic which it can not deliver, to show sufficient courage to refuse to continue receiving traffic and to insist that the traffic must go forward by competing lines.

MET BY UNIFIED CONTROL.

These conditions have been substantially met under unified control by the routing and distribution of traffic over the available lines and by the establishment of the "permit system," whereby traffic involving potentialities of congestion is not allowed to be loaded except upon showing that it can be delivered to and taken care of by the consignee at destination. During the autumn months of 1918, when traffic was at its heaviest, there was practically a complete absence of transportation stringency, which in the immediate preceding years had amounted almost to transportation paralysis. This condition was due largely to the "permit system." The ability to use this system in the public interest and regardless of any actual or apparent embarrassment to any particular

railroad is probably the most important thing in preventing traffic congestion. It is feasible and easy under unified control.

One of the essential reforms, therefore, is the adoption of some system to control traffic in the common interest.

As far as railroad tracks are concerned, the mileage of road tracks (as distinguished from terminal tracks) appears to be sufficient to take care, generally speaking, of a much larger tonnage than can be handled through the terminals. At times, however, particular railroads may become embarrassed by a surplus of traffic, even though it may be possible to care for the traffic at the terminal. Under unified control, in such conditions, the surplus traffic can be diverted to some other railroad reaching the same destination. Under private control this has not been possible. The company which was able to obtain the routing of the traffic has, generally speaking, not been willing, even though unable to handle the traffic successfully, to let it go to a rival railroad. The public ought to be provided with some system whereby unused railroad capacity may be used in the common interest in times of stress.

EXPORT TRAFFIC.

One of the most important classes of traffic is the export traffic, and this ought to be greater than ever in the future. The transfer of such traffic at the seaport from the railroad car to the ship involves great possibilities for congestion and delay. Under the old form of private management, a particular railroad company naturally wishes the traffic to go to its own port, and, even though that port may be momentarily seriously congested, is unwilling to turn that traffic to a rival line whose port may be free from congestion. Undoubtedly, an opportunity exists under unified control, even in peace time, to apportion the traffic among the ports and coordinate rail transportation with ocean transportation in such a way as greatly to relieve the strain which at times arises from the inability of the particular railroad company to consider the interests of ports other than its own and to coordinate effectively with the ocean transportation. Whatever the solution of the railroad question, a way ought to be found to control this matter in the public interest in times of emergency.

MOTIVE POWER AND CARS.

A further transportation factor of great importance is having adequate locomotives in good repair. In the past each railroad company has had its own locomotives and, generally speaking, has used them exclusively upon its own rails. If some of them were temporarily idle, there was not generally any way of allowing them to be used temporarily by other railroads which were short of locomotives. In cases where there was no surplus of locomotives anywhere, and where additional locomotives were far more needed, in the public interest, in some sections than in others, there was under private management no way under peace conditions of taking locomotives from the line where the public interest needed them least and putting them into service upon the line where the public interest needed them most. There was no way in which locomotives could be mobilized so that they can be used where they will do the public the most good. This, of course, has been accomplished under unified control and will be to an increasing extent.

The availability of locomotives depends upon their being in good repair, and the ability to repair them depends upon the shop capacity. Under private control each railroad company has had its own shops. If those shops are taxed to their capacity, it is not, generally speaking, convenient to turn additional locomotives, needing repair, over to the shops of other railroad companies in order to receive the repairs. The result is that shops of some railroads may be partly or largely idle and shops on other railroads may be wholly unequal to the tasks confronting them. Yet private management has never been able to work out any comprehensive and effective way for "matching up" the demand and supply of locomotive shop capacity. This important matter has been handled with great success under unified control and can be developed so as to be handled more systematically and successfully as time goes on.

COMPETITION.

Under private management there has also been an unnecessary use of locomotive power through duplication of train service for purely competitive reasons, whereas under unified control trains can be consolidated so as to re-

lease for useful service many locomotives which before had been used merely in transportation rivalries, and without carrying loads to their full capacity.

It is obvious that cars can not be mobilized and utilized to the best interest of the public as successfully under diversified private management as they can be under unified control. When each railroad company is intent upon the traffic which it can obtain for its own line, it is inevitable that the most carefully drawn rules will not be fully carried out and that there will be a temptation, frequently irresistible, for a railroad company to retain cars for its own purposes, when the public interest requires that those cars should be devoted to some other purpose. It is also true that the handling of empty cars, so as to get them in the quickest time to the place where they are most needed, can not be handled as well under private control, because the transportation of the empty car gives the transporting railroad no revenue, and hence it is not disposed to encourage any such transportation, except to the extent that it has had the benefit of the car when loaded and producing revenue. And yet, in many instances, in order to reach the place where it is most needed, the car ought to be hauled by a line which has enjoyed no revenue from the car when it last moved under load. The results of unified management show important advantages resulting from unified control of the car supply. These advantages are strikingly apparent in the case of special types of cars, as, for example, tank cars and refrigerator cars.

Any permanent solution of the railroad question ought to give the public the advantage in times of stress of the mobilization of locomotives and locomotive repair shops, and of the handling of all equipment in the public interest, including the emergency handling of empty equipment.

RATES.

In the matter of rates an immense advantage resulting from unified control is that rates can be made only so high as may be necessary to protect the situation as a whole, through paying the total expenses and producing only a sufficient resulting operating income to represent a fair compensation for the property employed. But under separate management there is the greatest diversity in the prosperity of the railroad companies. Some will prosper on very low rates and some will fail on very high rates. The result is either that rates must be maintained on an average basis which, while producing high profits for some railroads, will still leave other railroads in bankruptcy, or must be made sufficiently high to leave a margin of profit to the less prosperous, with consequently excessive profits to the most prosperous. The former course will result in the less prosperous roads being unable to perform their public service successfully. The latter course will result in the public being burdened with unnecessarily high rates. Under unified control rates which are sufficiently high on an average to protect the general situation will insure an adequate service on all roads and will at the same time protect the public against rates being made any higher than is necessary to meet the real necessities of the situation. I do not believe there can be any successful solution of the railroad problem which leaves in existence the great disparity in the results of the same rates to different railroad companies, because this will always cause question as to the propriety of any scale of rates and will keep the rate question in constant turmoil.

RESULT.

I believe that under the handicaps of war conditions a sufficient showing has been made to indicate that all the reforms I have mentioned are desirable as permanent peace measures. Yet it is clear that the general public has not had an opportunity to appreciate this and to weigh the real value of what has been accomplished. There has not yet been an opportunity to give the public knowledge of the facts. In view of the far-reaching importance of any solution of the railroad question which may be adopted, the public is entitled to have, before the present Federal control shall be terminated, a reasonably fair test under peace conditions of the advantages to be derived from these reforms.

When Congress comes to take the responsibility of making a final decision as to which is the best permanent solution of the railroad problem, one of the most important considerations to which it must give attention is the question as to which solution will involve the least financial burden for the future upon the American public. This being true it seems to me of the highest importance that Congress should have an opportunity to form an accurate idea as to the

cost of unified control of railroad operations under peace conditions. In order to have an accurate idea on this subject Congress ought to have before it at least the operations of the year 1919 under Federal control. Of course these figures can not be ready until the spring of 1920. If Congress undertakes to make its permanent solution of this great problem prior to that time it will do so without any adequate comparison between the cost of railroad operation under diversified private control as in the past, and the cost of railroad operation under unified control during peace time. It is true that the figures for the year 1918 will be available in about two months, but these figures will represent the operations under war conditions when the railroad management was subjected to many difficulties which will not exist under peace conditions, and when a great deal of traffic had to be handled regardless of cost in order to meet the insistent emergencies of war. It also happens that the year 1918 includes the operations of the most severe and costly winter that has ever been experienced in the life of the railroad business in this country, and the cost of clearing up the most serious congestion of traffic in the history of the railroads—a congestion existing at the time Federal control was assumed. Therefore, unless a final solution of this problem is deferred until a reliable view of the economies which actually arise out of unified operation can be obtained, the result will be the adoption of a permanent solution in ignorance of one of the most important factors to be considered.

SHIPPING AND THE RAILROADS.

The glorious victory for democracy in which America has played such a noble and conspicuous part has given her a commanding position in world affairs. Our own material development makes it more than ever necessary that we shall have access upon just and fair terms to the markets of the world for the disposition of our surplus products. We can not meet this situation unless we are prepared to go forward immediately. Opportunity does not wait for the laggard, whether that laggard be a nation or an individual. America must go forward immediately and organize her resources effectively for the purpose if she is to enjoy her share of the fruits of the keen and friendly rivalries in commerce in which she must engage with other nations.

Under the provisions of the United States shipping act, the great merchant marine we are constructing is to be under Government control for a period of five years from the conclusion of the European war. If our splendid merchant fleet, built with the money of the people of the United States at a cost of more than \$1,000,000,000, is to be used successfully in their interest, it must be operated in effective coordination with the great railroad systems of the United States. They must work together harmoniously and reciprocally. During this great period of world development, involving the vital welfare of the American people, it seems to me peculiarly wise that the period of Federal control of railroad transportation shall be made concurrent with that of Government ship control. Then we shall have a great transportation system on land and sea furnishing the reliable, effective service which will protect the interests of the American people and carry them forward upon a career of prosperity and success unequalled in any previous period in their history.

CONCLUSION.

This is why I have urged that Federal control be extended until January 1, 1924. It will be impossible to view the results of even one year of Federal control under peace conditions until the spring of 1920, and it will then be too late for Congress to legislate before the end of the 21 months' period. Even if it were possible to accomplish legislation in the next 12 months, it would be done without any opportunity whatever to form a reasonable idea as to the advantages of unity in the matters I have mentioned under peace conditions.

Moreover, the operations under peace conditions with a tenure so short as the 21 months' period can not possibly constitute a fair test. With such a rapidly approaching termination and with every officer and employee naturally speculating on his relations to the new management, whatever it may be, it will be impossible to secure the best results from the railroad organization, and the nearer the termination approaches the more difficult will be the situation.

Indeed, the difficulties with operation during the 21 months' period will be so serious that I do not see how the Government can be fairly asked to encounter them. It will be asked to continue an operation deprived of all the elements

which would help in making the operation a success, and I do not see how it can be seriously urged as the proper course by anyone except those who are anxious at all events to see the railroads restored to the control of numerous different companies, just as in the past. It seems to me that anyone who wishes a fair and dispassionate study made as to what is the best ultimate solution and as to the extent to which the reforms I have mentioned are in the interest of the American public, and as to the way in which those reforms can best be accomplished, if in the interest of the American public, must be anxious to have a reasonable period of Federal control after the war, under conditions calculated to make for tranquillity and single-mindedness upon the part of the Federal railroad organization. I do not mean that this would be desired in order to accomplish Government ownership, but it seems to me it would be desired in order to test the utility of various reforms in the direction of unification which can be accomplished without Government ownership, but which can not be accomplished, as I view the situation, through an unrestricted return to the old conditions of management, through from 75 to 100 different important railroad companies and several hundred smaller railroad companies.

The 21 months' period will be entirely too short to accomplish any effective results with respect to improvements, and especially the terminal improvements which are peculiarly needed. Indeed, with such an early termination of Federal control, there will be almost a complete stoppage of improvement work, except what is obviously needed for the most urgent necessities. The result will be that terminal reforms, which are badly needed in the public interest and which already have been delayed many years, will be subjected to further indefinite delay. It will also be true that needed railroad construction and extensions will be practically at a standstill.

In the nature of things the concurrence of the railroad corporations can not be expected in matters of improvements and extensions during the 21 months' period except as to things of the most urgent and obvious necessity and where there is no possibility of conflict with the selfish interest of the particular corporation. This is not surmise, because the evidences of it are already appearing—notably in the case of locomotives—where budgets were submitted by the corporations calling for their purchase, and where even now many of the corporations are challenging the purchase of locomotives made for their account and within the limits of their requests. It is natural that each company will prefer to hold all other matters in abeyance in the hope that it can make its own way at the end of Federal control. This condition will not exist, however, if a five-year extension shall be granted. During the early part of that extension comprehensive improvements can be carried forward in the public interest, and the railroad companies will appreciate the impracticability of holding everything in abeyance for so long a period as five years. Of course, as the five-year period nears its termination, there would be a disposition on the part of the corporations to postpone matters which had not theretofore been entered upon, but by the time this condition would arise it is reasonable to expect that Congress would have been able to make a permanent solution of the whole problem in the light of an adequate experience with the present opportunities for unified control.

With the five-year extension it will be practicable for Congress—say, within two years from now—to enter upon a permanent solution of this question after Congress and the country shall have had before it the result of a complete year's experience of Federal control under peace conditions, as well as a year's experience under war conditions. Congress, with that additional experience, will be able far better than it is at present to estimate at their real value the reforms which I have submitted to you as being fundamental, and Congress can then determine whether those reforms are so important as to make it desirable to adopt some other method of railroad ownership and control than that of such a great number of different private companies, as has been the case in the past.

VALUATION,

It must be remembered also that Congress has thought it important to provide for a valuation of railroad property, and this valuation has been in progress for several years, at large cost. I assume that it will be completed in the next two or three years. There is widespread conviction that no permanent solution whatever of the railroad problem can be made which does not put at rest the present insistent claims as to railroad overcapitalization. The question therefore arises whether Congress can satisfactorily deal with this matter in advance

of the completion of the valuation which it has already prescribed, and whether Congress will wish to attempt a final solution of it before it can have the benefit of the valuation for which it has already appropriated such large amounts and to which it has attached such importance. It is not possible, as I view the complexities of the problem, to effect any marked change in the form of railroad control that is not based upon a completed valuation of their properties.

STATEMENT OF ROBERT W. WOOLLEY, MEMBER OF THE INTERSTATE COMMERCE COMMISSION, BEFORE THE COMMITTEE ON INTERSTATE COMMERCE OF THE UNITED STATES SENATE INVESTIGATING THE PRESENT RAILROAD SITUATION, MONDAY, JANUARY 13, 1919.

In my dissenting memorandum, which Commissioner Clark kindly read to this honorable committee a few days ago, I gave several reasons why I consider it highly advisable to continue Federal control of our railroads and to grant the extension of the period of control asked by Director General McAdoo. Probably my chief reason, the one which deals with the very fundamentals of the transportation problem of the United States, is that in my humble opinion our freight-rate structure is unscientific, illogical, and laden with preferences, and that a sufficient time with conditions normal must be granted for testing a plan calculated to do exact justice to the whole people rather than to the shipper and the carrier as classes of the people.

I submit that in the suggestions made here and in the learned discussions which have characterized these hearings only the interests of the railroads on the one hand and of the shippers on the other have been really considered. There has been talk of the public, but in terms of groups rather than of the whole, for if the rights and needs of the man on the farm or the man in the village are to be placed on a par with those of the man in the large city—if the small town is to be given equal opportunity with the big town—then I protest that this committee and the Congress must make certain that the final solution of the transportation problem, so far as legislation is concerned, shall guarantee that degree of unification of all our railroads, large and small, which will make possible the installation of a nation-wide rate structure based upon a terminal plus straight mileage charge. Without such a uniform arrangement no equitable development of our agricultural and mineral resources, our community life, and our small seaports can be accomplished.

I propose to demonstrate to this honorable committee that the freight rate is not simply an academic question to be settled with the consent of shipper and carrier, but that it goes to the heart of our social and economic problems, and that upon it depends almost wholly the very existence of thousands of communities and the happiness and chance to prosper of millions of our people. I propose to prove that our commercial development has been dictated by the railroads; that communities or industries have developed or failed to develop as the officials of our great transportation system have decreed; and that the effect of the exercise of the rate-making power, at least so far as absorbing enormous terminal costs in the line-haul rate is concerned, has been and is taxation of small towns and rural communities without representation.

The rate structure under competitive conditions has been a gradual growth and the Interstate Commerce Commission, under the provisions and restrictions of the act to regulate commerce, has in reality specialized rather than equalized conditions all over the land in trying to perfect that structure. Instead of the number of situations calling for adjudication being gradually decreased they are being increased. This can be readily understood when it is borne in mind that action in a given case, as a rule, involves limited areas, and that in attempting, with only the carriers and shippers appearing, to equalize conditions in a community or group of communities certain relations to other situations are almost invariably interfered with, and so soon as the new inequalities become irksome more actions are brought before the commission. I submit that it is time for the Government, in behalf of all the people, to announce a policy of its own in equalizing commercial conditions and to take this legislative function definitely and permanently out of the hands of the railroads.

I beg to summon to my support very distinguished authority—

(1) Twenty-two years ago the late Mr. Justice Harlan, of the Supreme Court, saw the evil of competitive rate making, even though under Federal regulation, when in his dissent in the case of *Interstate Commerce Commission v. Alabama*

Midland Railway Co. (168 U. S., 144), decided November 8, 1897, he said, at pages 176-177:

" * * * The judgment in this case, if I do not misapprehend its scope and effect, proceeds upon the ground that the railroad companies, when competitors for interstate business at certain points, may, in order to secure traffic for and at those points, establish rates that will enable them to accomplish that result, although such rates may discriminate against intermediate points. Under such an interpretation of the statutes in question they may well be regarded as recognizing the authority of competing railroad companies engaged in interstate commerce—when their interests will be subserved thereby—to build up favored centers of population at the expense of the business of the country at large. I can not believe that Congress intended any such result, nor do I think that its enactments, properly interpreted, would lead to such a result."

(2) Commissioner Lane, himself a citizen of California, in the case of Arlington Heights Fruit Exchange et al. v. Southern Pacific Co. et al. (22 I. C. C., 149), decided December 11, 1911, was so impressed by the utter lack of logic or equity, so far as the public as a whole was concerned, in the construction of what is known as the California fruit blanket, that he said, at pages 157-158:

" * * * This case, when broadly regarded, involves a question of the highest national importance. What is to be our policy with respect to the movement of traffic? Shall the country be treated as a whole for commercial purposes, or shall it be infinitely divided? In our Postal Service we deal with the country as a unit. As to our railroads there is no uniform policy, even upon the same lines or systems. * * * The whole continent for a zone of 2,000 miles is made to serve the Pacific coast terminal cities at uniform rates, while the States between the mountains are not given such advantage. So, too, on California products generally, and not alone upon citrus fruits, the United States east of the Rockies is placed in a great zone to which a uniform rate is made. At the same time the lumber of the far Northwest is not so treated, nor the wool or hides of the interior."

"Perhaps the United States will one day declare a policy of its own in this regard. Primarily it is a matter of national concern and not of railroad policy as to what system of rate making shall obtain so long as the carriers receive a reasonable return upon the value of their property. The people may say (1) that railroad rates shall be made so as to carry all products into all markets within the four lines of the country; or (2) that after a certain narrow limit is passed the whole of the land shall be one zone; or (3) a system of rates that will keep producers and consumers as near together as possible and eliminate waste in transportation. These are national questions. They go to the very future of our industrial life. Upon their determination depends the character of the farm products and the nature of the industries in the various sections of the country. The railroad by its rates may make each portion of the country largely independent of the remainder or it may make of the Nation one economic and industrial unit, each portion thereof doing best what nature has fitted it to do best. That is fundamentally the difference in the philosophy which underlies the two methods of making rates which have been given consideration in this case. Without any expression of policy from Congress we accept the policy which the railroads themselves have made, considering that upon the whole the results arising from such policy do not conflict with the provisions of the law. There is no doubt in my mind but that the commission could not itself prescribe a blanket similar to that obtaining here and which we are approving because neither the carriers nor the shippers wish it destroyed."

(3) The entire Interstate Commerce Commission as constituted in February, 1911, in the report in *In Re Investigation of Advances in Rates by Carriers in Official Classification Territory* (20 I. C. C., 243), at page 248, said:

"The railroad rates of this country have not been constructed as a rule upon any scientific basis, and this is especially true of the interstate rates. The traffic officials who have established these rates have generally done so without any special inquiry as to the total amount of revenue which ought to be produced or as to the part of that burden which a particular commodity ought to bear."

On page 249, of the same report, the commission said :

"The railroad freight rate affects all classes of society, but in different ways. The investor in railroad securities desires that the rate be liberal in order that the integrity of his security may be protected. The railroad employee believes that the rate should be advanced, since if his employer has ample earnings he can obtain a larger share for himself in the way of increased wages. The railroad supply house approves the advance because higher rates insure better business for it.

"Upon the other hand, the manufacturer insists that higher rates mean to him a higher cost of production and less profit in the operation of his factory. The merchant urges that to increase the transportation charge is to increase the cost of his commodity and to limit the amount of his sales.

"It should be noted moreover in this connection that those who are most affected by these advances are usually not represented at all in such discussions. While it is true that the increased rate adds to the cost of production and while at the outset this increased cost must perhaps be borne by the manufacturer or wholesaler, still in the end the freight rate, like every other item of expense, finds its way into the price paid by the consumer. The freight rate may limit the operations of a particular factory, or may exclude the jobber from a particular market, but the ultimate producer and consumer for the most part bear this burden."

(4) In dealing with coal blankets in Bituminous Coal to Central Freight Association Territory (46 I. C. C., 66), handed down on July 13, 1917, the commission practically did not take the line-haul, so far as mileage was concerned, into consideration. There was sharp conflict between the coal operators of Ohio and West Virginia. I quote from the report at page 142:

"* * * Counsel for the West Virginia operators succinctly states their attitude in the following language:

"* * * Our position is simply this, that whatever operates to decrease the power of the Ohio operator to successfully compete in the markets with the West Virginia operator is a proper subject of inquiry in this case, and it does not matter whether that is a labor condition, a natural condition of the mine, or anything else that stands in his way of a successful competition."

"This argument," says the commission, "is predicated upon a mistaken view of the duty of the commission. Its fallacy lies in the assumption that in dealing with a competitive situation between producing fields the commission may, in disregard of transportation conditions, fix rates to equalize commercial and economic disadvantages or approve existing rates that effect such a result. Under the law the commission can only determine whether the rates are just, reasonable, and nondiscriminatory."

Again, only the interests of the carrier and the shipper could be considered. On page 143 of this report the commission said:

"With respect to the group arrangement in the territory here involved it seems pertinent to make some general observations. A full measure of justice, i. e., exact justice, is unattainable where a rate adjustment between divergent and conflicting interests depends upon a group system, unless all considerations other than those of a purely transportation character are eliminated. The adjustment prescribed herein does not, perhaps, attain the fullest possible measure of justice. No carrier or shipper is here advocating the breaking up of the present group arrangement, and no witness testified that any such measure was desirable or would effect any relief against the disadvantages of which complaint is made, although counsel for the Fairmont district interests did upon argument advocate such a measure of relief for their clients. Save for this one exception, the testimony both of the carriers and shippers seems to assume that the maintenance of the present group arrangement is desirable from a commercial and competitive standpoint.

"The present grouping may not be wholly justified from a transportation standpoint; but in a case such as this, where the group arrangement is of long standing and business has adjusted itself thereto, the commission is loath, in the absence of a clear discrimination resulting therefrom, to disturb the arrangement. If, however, differences growing out of rivalry and internecine competition between the shippers from the different groups can no longer be composed among the parties themselves, the commission will have no alternative but to break up the group arrangement and substitute for the present adjustment a rate basis which will give to each of the several districts its just relation to all other districts. This would probably result in a distance basis

or relative distance adjustment radically different from the present basis, but it would approximate justice and would give to each representative district the advantage or disadvantage that naturally goes with its location. The data, save for some minor details, necessary to determine this relationship are of record in this proceeding, but for the reasons indicated it seems undesirable and perhaps not required by justice to break up these groups."

"Not required by justice" to whom? The public? No; to the carriers or the shippers.

(5) Only a few weeks ago Mr. Joseph N. Teal, general counsel of the Portland Traffic & Transportation Association, of Portland, Oreg., in an address on "The future course of rate making"—his views are important because he is recognized as among the foremost of the lawyers who represent the shippers of the United States before the commission—said:

"Throughout the country generally 'big places' and 'big business' have been favored by the rate-making powers, with resulting concentration of business in these favored localities. Almost any tariff will furnish illustrations of this practice. The effect of this policy is to encourage the growth of favored places and to limit or prevent the growth of others. And the greater the growth the more the favors that are demanded and given. The result is observable throughout the country in the enormous business concentrated and done in a few great cities. With whatever of value results from this concentration go also correspondingly grave social and economic problems, which always accompany congested population. High cost of living, poor surroundings, intensive competition among the workers, family life under very hard conditions, poverty, and other ills are some of the penalties paid for concentration of business and population, to say nothing of depriving other communities with equal rights of equal opportunities, and thus of preventing the spreading out and diffusing of industrial development throughout the land. The European war has brought home to us, as nothing else could, both the weakness and danger of concentrating our manufacturing plants in a few places and in limited territorial areas.

"The principle that has governed the railroads in the making of rates in this country has been frequently defined as 'all that the traffic will bear.' In an address before the National Rivers and Harbors Congress, at Washington, D. C., on December 9, 1914, Mr. Louis D. Brandeis, now Mr. Justice Brandeis of the Supreme Court of the United States, explained the effect of the operation of this rule. He said:

"'It meant on the one hand that where there was no competition the traffic would have to bear everything which the carrier attempted to put upon it—everything that it could bear and still move. That was a great hardship, not only upon individual shippers, but even more upon particular communities not blessed with competitive methods or systems of transportation.

"'But "what the traffic would bear" involved, on the other hand, something extremely bad for the carriers; it involved charging no more than the competitive traffic would bear; and the result was a scramble for traffic among competitive lines, in which many carriers became bankrupt.'

"It also meant," said Mr. Teal, "irreparable harm to the public in the annihilation of transportation on the inland waterways of this country.

"It was a rule of thumb, and probably is yet, for the rate maker to assume that 5 mills per ton per mile represents the cost of service, and with this in mind he made his rates. It was known that this figure was not exact, but by general consent it was largely used. In very recent years a highly scientific expert from one of the great railroads of this country testified that on his road certain traffic paying about $3\frac{1}{2}$ mills per ton per mile was more profitable than other kinds of traffic paying 8 or 9 mills, and that the $3\frac{1}{2}$ -mill traffic was fairly remunerative. Traffic officials of very high standing have said that rates were made more or less by instinct or intuition. What is meant is that the traffic man can tell instinctively or intuitively the rate any particular traffic can bear and on which it will move, and that that is the problem that concerns him. In recent years I have heard traffic officers testify that they knew but little of cost of movement or any of the factors entering into the cost of service; that they were given but little consideration in rate making; that the earnings of the road had nothing to do with the reasonableness of the particular rate or schedule of rates; and that the fact that the traffic moved was the real test of the reasonableness of the rates. I have also heard traffic officials testify that rates had been fixed arbitrarily for the purpose of favoring particular places,

while like privileges were denied to other places equally entitled to them. I have known of different traffic men of the same road testifying in different cases who reached absolutely opposite conclusions as to whether or not rates on their road under which there was a very large movement of traffic were remunerative. One would testify that he doubted if the rates paid cost of movement while another would testify that the same rates were remunerative and satisfactory. I am not impugning the good faith of either, for neither knew the real facts, and each was giving his opinion only.

"At times through the desires of railroads, but more often through the influence of large interests, both individuals and communities, preferences and discriminations have been created under which in some cases there has been an abnormal, if not dangerous, development, both of particular enterprises and of communities. I say dangerous development, because not being based on principle but rather on favor which could be withdrawn at any time, the business did not rest upon a secure foundation, a fact reminiscent of the line from Pope, 'A breath revives him, or a breath o'erthrows.'

"There are discriminations that are not unjust, and preferences that are not undue or unreasonable, but it is extremely difficult for the one suffering under the discrimination or unfavorably affected by the preference to view the matter as philosophically as the one receiving the benefit or favor. And it is hard to convince such a one that either a railroad official or even a commissioner can adjust accurately and justly the exact amount of discrimination that he must labor under and the degree of preference to his competitor that will not be unreasonable."

(6) The situation at Jackson, Tenn. may be taken as typical of the small city. This town in 1910 had a population of 15,779. The Illinois Central, the Nashville, Chattanooga & St. Louis, and the Mobile & Ohio systems enter there. Following is a letter under date of October 30, 1918, from A. J. McGehee, secretary of the Jackson (Tenn.) Association of Commerce to J. M. Dewberry, chairman of the Louisville district freight traffic committee, United States Railroad Administration.

"I have submitted to your committee a great number of statements of freight rates, both to and from Jackson, Tenn., covering all parts of the country with which our people do business, and these statements furnish incontestible proof that this city, and in some degree all of the interior points of this section, has imposed upon it freight rates ranging from 50 to 150 per cent higher than from the same point and upon the same goods to Cairo, Memphis, and other river cities.

"This enormous, penalizing, and excessive levy of tariff upon us constitutes taxation without representation, without reason and without recompense.

"We feel that this discrimination is against public policy, unjust, and can not be defended by either the owners and management of the railroads nor by the United States Government, which now has them under control.

"It is taxation without representation, because there has not been, and is not now, one single person who has authority or a voice in the matter of fixing these rates who lives in and has his personal fortune invested in any of these interior points.

"All railroad managers and large stockholders, whether they are conscious of the fact or not, have seemed to have in mind the future development and prosperity of towns and cities situated on the coast and rivers without considering the possibility of the development of the interior cities; and when this question is presented to them we have to combat not only the prejudices, which have been instilled into them, but also their own personal interest.

"Since the management of the railroads has been taken over by the Government the same state of affairs exist and the interior is still left without representation.

"The director general, the regional directors and the traffic committees are all men whose personal interests are entirely in sympathy with the present schedule of freight rates, which gives the favored point a tremendous advantage over the interior.

"These committees that have been formed for the purpose of considering these matters are composed of two members, who represent the railroad ownership, or a reversionary interest in the railroad; and one member who represents the shippers of the country; but in every case this member is selected from the board of trade or traffic bureau of the favored cities.

"I am not calling your attention to these facts in order to intimate that they are not honest men and can not by some method or other be convinced that it

is their duty to give honest and serious consideration to this matter, but merely to impress upon you the fact that the people of the interior have not been consulted in the making of these rates, and it has therefore been imposed upon them without their consent and without their having a 'friend at court.'

"It is taxation without reason, because there has not been found any sufficient excuse for establishing such a discrimination nor its continuation in the future.

"The owners of the railroads, the directors of traffic, the traffic committees, the traffic bureaus of all the cities, and all the people of these cities admit that there is no river competition with rail; so that the old excuse, which was given for the present rates to the river points, does not now exist, and as we think will not ever exist again.

"The excuse, which is now urged by all the points interested, namely, the boards of trade, the traffic boards, the freight agents of the railroads, and the people who have their interest invested in the river cities, is that if the freight rates should be raised to these points in the effort to bring about an equalization between these points and the interior the river traffic would be immediately revived.

"It seems to us in the interior that any man who would give this as an excuse or let it in any manner control his action in the matter, when he has any authority over the question of rates, would really be ashamed to admit to himself that he was influenced by any such narrow and selfish motive; but to our surprise all of the above-mentioned classes of people state openly and above board that this is the main and impelling reason why they oppose the increase of freight rates to these points. In fact, they declare that it is the general policy of the railroads to forever prevent the reestablishing of river traffic.

"The very statement of this determination is conclusive evidence that those who array themselves against us have adopted the policy that 'might is right,' and that they intend to maintain this attitude toward us regardless of how much it may violate public policy and the sense of justice and fair play.

"We contend that this does not furnish a sufficient reason for the continuance of this discrimination and if it did it is wrong, unjust, entirely out of all reason, a violation of the constitutional rights of the majority of the people and should be abandoned at the earliest possible moment,

"It is taxation without recompense, because there is no possible return or compensation given by the railroads to the people of the interior resulting from the levying of this excessive tax. In fact, every result of this discrimination aggravates the wrong imposed on the interior people.

"It is an inflexible law, that when a wrong course of action is pursued against any people the result of such action, whether intended or not, operates to increase the wrong, and in this case the result of the recent increase in rates and the imposition of a special Government tax are exceedingly unfortunate to us. The mere statement of facts will impress upon you the injustice of the present schedule of rates.

"The recent raise of freight rates of 25 per cent on the dollar resulted in a very much greater increase of high rates to the interior than it did the low rate to the river points; for illustration, supposing the rate to the river point to be 50 cents per hundred, the increase made it 62½ cents per hundred, and the rate to the interior point, already without any reasonable excuse, being \$1 per hundred, is now \$1.25 per hundred.

"We insist that this rate should have been a certain per cent on the weight of the freight instead of on the amount of the freight bill.

"The same applies to the 3 per cent on the dollar special Government tax, which has resulted in the interior paying 6 per cent as special tax where the favored point pays only 3 per cent. Not only are the people of the interior made to suffer the loss of their money as compared with their more fortunate neighbor, by the 25 per cent collateral raise of rates and special taxes, but in the whole scale of operation of the railroads an enormous tax is imposed upon the interior people without any recompense to them, and for the avowed purpose of giving more and more advantage to the favored locations.

"This is demonstrated by the fact that in the coast cities and other points, where business competition or other reasons are given for low freight rates, the railroads have been compelled to build and maintain large and expensive terminals for the convenience and comfort of the people of those places, and to operate these terminals free of cost.

"The building and free operation of these terminals adds enormously to the amount of capital invested and out-of-pocket expenses of railroad traffic, and

must be charged to the main line haul and imposed upon the business done by the people of the interior.

"This alone, we think, if figured correctly by any railroad system, would develop a startling taxation without recompense levied upon the business of the interior.

"Yet another very serious and unreasonable imposition of taxation without recompense results from the fact that the people of the river points are continually clamoring for the Government to spend millions of dollars annually upon the rivers to insure their river transportation, yet at the same time they hold the big stick of threatened river transportation over the railroads to keep the freight rates so low that river traffic can not be revived, and thus the Government is being wheedled into pursuing a policy that robs the interior people of their hard-earned dollars, already overtaxed, and gives it without reason and without practical results to the people of the river cities.

"If I have stated anything in this letter that is not true, please correct me. If I have stated the matter in any way that is unfair to the railroads or the favored points, please call my attention to it.

"Assuming that your committee is an official Government agency, with power to act, we most earnestly urge you to make such a reduction of the freight rates to Jackson as will relieve us of the unjust burden of taxation, from which we get no benefit, and that you raise the rates to the river points till they are equalized with the interior, so that the people of the river points will be compelled to pay their just proportion of the 25 per cent collateral raise in rates, the 3 per cent special Government tax, the cost of the magnificent and expensive terminals, and their free service, and the millions of dollars that they induce the Government to spend on the rivers for their special benefit.

"Unless the Government makes this just equalization of the burdens of all the people, we will appeal to the people of the interior to wake up and by some effective means throw off this yoke of taxation without representation, without reason, and without recompense.

"We will appreciate your early statement to us of the authority your committee has in this matter and the course which you intend to pursue."

I submit to this honorable committee that this letter sounds a pathetic note. I know one answer is that in view of the Interstate Commerce Commission's recent decision in the Willamette Valley case (51 I. C. C., 250), wherein rates initiated by the Director General of Railroads were reviewed and discriminations created by his General Order No. 28 increasing freight rates of the country by 25 per cent were ordered removed, that is where Jackson should go to get redress. And doubtless she will go there, but when Jackson's house is set in order, if it can be, what is going to happen on the fringe of the reconstructed-rate territory. Why, her neighbors will have complaints, and in due time Jackson will have another complaint. The recurring petitioner is a leading exhibit of the body of which I have the honor to be a member.

DEFECTS IN RATE STRUCTURE.

Upon analysis we find that the defects in the present rate structure may be grouped under three principal heads, viz: Conflict of rail and water carriers; crosshauling of freight; and differentiating between and properly allocating costs of terminal and line-haul services.

(1) As business proposition, the rail carriers of the United States practically do not admit the right of steamboats on inland waterways or steamships engaged in coastwise traffic, except in rare instances where they are integral parts of given systems, to exist. The practice of reducing rail freight rates to points located on rivers and other waterways below the level of rates maintained to inland points, in order to meet and if possible destroy water competition, is long established and is recognized in the fourth section of the act to regulate commerce as amended June 18, 1910. True, this section provides that once a rate is reduced to meet a water rate it shall not be again raised, except upon proof of changed conditions other than the elimination of water competition. That such proof is not hard to obtain and that such depressed rates have been again raised is a matter of common knowledge. Why, in the Westbound Lake-and-Rail Knit Goods Commodity Rates Case (32 I. C. C., 54), decided October 12, 1914, the Commission had to hold that this new provision of the act to regulate commerce applied only to rates reduced subsequent to its passage, whereas it was popularly believed that Congress had sought to furnish a means

to rectify inequitable adjustments long existing. I call attention of the Committee to the case of Northern Pine Manufacturers Association v. Chicago & North Western Railway Company et al. (38 I. C. C., 370), decided March 14, 1916, in which the Interstate Commerce Commission, dealing with reductions subsequent to the passage of the amendment, said, at page 376:

"That the 10-cent rate from Duluth, long continued, was water compelled is beyond question, as is also the fact that any rate between Duluth and Chicago must be made with water competition in view. The comparison adduced indicate that the proposed 12-cent rate is not above the usual rate on lumber for competitive hauls. Nor can it be maintained that because a carrier has once chosen to make a low rate to meet water competition, it is estopped from thereafter increasing that rate, provided the new rate is just, reasonable, and nondiscriminatory, and the requirements of section 4 are observed. In Coal and Coke Rates in the Southeast (35 I. C. C. 187), at page 196, it was said, quoting from Scrap Iron Rates between Duluth, Chicago, etc. (28 I. C. C. 467, 470):

"The extent to which the carrier shall lower its rate to meet anticipated competition is a matter primarily for its decision, and should it later raise the rate the sole question for our determination is whether that increased rate is just and reasonable for the service performed, and not whether the carrier should be compelled to keep its rates on a probable unremunerative basis upon which it voluntarily put itself to meet special conditions."

In so quoting the Interstate Commerce Commission, whose membership at the time of the decision comprised five of the present body, I hope I will not be understood as impugning either its motives or its reasoning. I simply desire to call the attention of this committee and the Congress to the fact that the rail carriers can put water carriers out of business at will without serious inconvenience to themselves and again raise their rates.

In the Transcontinental Rate Case (46 I. C. C., 236; 48 I. C. C., 79), decided June 30, 1917, and January 21, 1918, respectively, the carriers were permitted, in view of the closing of the Panama Canal to coast-to-coast traffic for the period of the war, to raise the level of class and commodity rates, reduced to meet canal competition, from points east of the Mississippi and Missouri Rivers to Pacific coast points, and yet it would not be reckless to predict that if the carriers go back to private control, the war being over and normal ocean traffic resumed, these rates will again be reduced, with the result that the American people, especially those of the inland States of the west, will be denied any domestic advantages from the canal which cost them approximately \$400,000,000.

There are in the United States 26,410 miles of navigable streams, not including the Great Lakes, our coast mileage on the Atlantic, Gulf of Mexico, and the Pacific (exclusive of Alaska) is 4,883 miles. For rivers and harbors, according to the last annual report of the Chief of Engineers of the United States Army, we had appropriated to June 30 last \$971,142,916.49. This, of course, does not include New York's expenditures of approximately \$190,000,000 on the Erie Barge Canal or of other States on like artificial waterways.

I submit that if we have a unified system of railroads, operating solely in the interest of the public, with due compensation for the capital invested therein provided for, competition between water and rail carriers can be definitely eliminated—it can be eliminated in no other way—and that if private capital is seeking a new field of investment it could hardly find a more attractive one than building vessels for our lakes and rivers and for the ocean ways adjacent to our shores, once the strong arm of the Government has removed the railroads as a possible rival.

(2) One of the great evils of our competitive scheme of railroad transportation is costly and ruinous waste in the shape of crosshauling, especially of coal, which takes a low commodity rate. Approximately 50 per cent of all the freight moved in this country is coal, and the blankets devised by the carriers and shippers, as illustrated in the case above quoted, in order that the highest possible degree of competition may be afforded to coal mines and carriers alike in all markets in every direction within wide territories, the consumer bearing the cost, has brought about the maximum of crosshauling.

I can give no more striking example of the saving it is possible to effect by so adjusting the rates that the consumer will be forced to use fuel from the nearest sources of supply than what has been done in Great Britain during the war through stern administrative measures. In his book War Time Control

of Industry, only recently published, Prof. Howard L. Gray says that in England and Wales alone the saving is estimated to be 700,000,000 ton-miles annually. Consider that the total number of miles of railroad in the entire United Kingdom is 23,701 and in the United States 259,468; that the population of the United States in 1910 was 92,757,702, and that of England, Scotland, and Wales in 1911 was 40,854,790; that the total area of England, Scotland, and Wales is approximately equal only to that of Ohio and Pennsylvania, and the need of readjustment of our method of handling this particular commodity in behalf of all the public is impressive.

Bearing in mind the numerous blankets devised to take care of as many commodities and the so-called "common-point territories" into which these commodities take uniform rates, without regard to the length of the haul or the cost of handling at the point either of origin or destination, the committee can readily understand that it is possible to give any number of instances of cross-hauling as grossly wasteful and as unjust to the public as in the case of coal. It is all in the interest of big business as opposed to average or little business; it is an important part of the process of uneven distribution of wealth; as in the case of covering terminal cost in the line-haul charge it is essentially a tax on the consumer in the interest of the carrier and of the large commercial operator.

(3) Stripped of all surplusage, the crux of the rail transportation problem and therefore of the rate problem is the uneconomic and costly terminal. It was the choking of certain terminals in official classification territory that awakened the American people to the fact that their more than 250,000 miles of railroads did not constitute an efficient transportation system, but a myriad of individual carriers whose operations in such a crisis could not be unified, no matter how urgent the necessity or how much the laws of the land might be disregarded, because self-interest prevented the taking of a step looking to the sacrificing of revenue by one or more in the interest of the whole, the final responsibility of the officers of the roads being to their stockholders. There was a so-called railroad war board or committee—the fifth of its kind—here at Washington, and a committee of traffic experts at Pittsburgh, but in the final pinch the magic touch of governmental authority in the person of a single directing head, representing the President, was required to solve the problem.

I submit that this wonderful accomplishment at one of the most critical periods of the war with the Teutonic powers is splendid proof of the efficiency attainable under Federal control. Furthermore, with the other big things achieved in abnormal times with "peak" prices prevailing, and still other big things inaugurated by the Director General of Railroads, it is worth all that it has cost and more, and in my humble opinion the \$196,000,000 deficit, or whatever the amount, should be treated as a war cost and defrayed out of the United States Treasury rather than continued as a charge to be absorbed out of carrier earnings expected to increase with the return to normal conditions, as planned by Mr. McAdoo.

Under the Director General we have seen the common use of terminals introduced. That is a step forward, but the fixed overhead capital charges for the several individual terminals of the respective carriers in many cities remains. Partial remedy will come with the physical merging of these terminals, but the real cure is primarily up to Congress and eventually to the commercial and governing bodies of the cities themselves. I shall endeavor to explain why.

In an investigation attending the second Five Per Cent Case (31 I. C. C., 351), decided July 29, 1914, an examiner of the Interstate Commerce Commission made a careful and reasonably adequate inquiry into the cost of handling a carload of freight from the time it landed within the terminal limits of several cities until it was delivered for unloading. The information obtained was interesting and highly illuminating. For instance, the examiner estimated that the cost of handling a car from its arrival within the terminal limits of Jersey City until it was delivered in New York, including lighterage, was approximately \$35 per car; that the cost of handling the same car at Chicago, where there is no lighterage, was \$10.35; that at Salamanca, N. Y., which is the end of a division and a junction point and which in 1910 had a population of 5,792, it was \$3.80; and at Binghamton, N. Y., which in 1910 was a city of 48,443 population, it was only \$1.80. No representative of the commission has made similar careful inquiries as to Boston, Philadelphia, or even Baltimore, but sufficient data is available, I am informed, to justify an inference that

the cost of handling freight within the terminal limits of any one of these three ports is nearly or approximately the same as at Chicago. But terminal charges based on costs respectively at New York, Philadelphia, Baltimore, and Boston, also at the smaller Atlantic ports, ranging from Portland, Me., to Jacksonville, Fla., as distinguished from a uniform line-haul charge, are not separately stated in the tariffs, in order that the interior exporter may take advantage of the nearest and cheapest port, but are unloaded on consumers of the interior and seaboard alike, and the unsuspecting public only complains of the high cost of living without being aware of the source of this particular tax.

A terminal charge based on cost, at both the point of origin and the point of destination, plus a uniform line-haul charge based on actual short-line mileage, would soon produce a wholesome agitation and competition among inland as well as seaboard cities for the reduction of terminal costs. Municipal governing bodies, boards of trade, etc., would almost immediately take the situation in hand, and in a comparatively short time, I venture to predict, we would witness a reduction of terminal charges to shippers that at present might seem incredible. The real estate exploiter of terminal sites would be suppressed and towns and cities would vie with each other in cooperating with the carriers instead of imposing heavy burdens on them, as is so frequently the case under present conditions. So far as seaports are concerned, those on the Atlantic coast which have been so long favored by a group of great carriers like the New York Central, the Pennsylvania, the Baltimore & Ohio, the New Haven, and their controlled lines, and have grown inordinately while ports having equally as good harbors have not been so favored, would undoubtedly suffer in a measure under the terminal-cost plus line-haul-mileage-charge system. But justice would be done and natural advantage and legitimate individual enterprise would take care of the future of each.

CONCLUSION.

When Mr. T. De Witt Cuyler, chairman of the railroad executives, was on the stand a few days ago Senator Townsend, referring to the plan of the executive submitted that day, asked the following questions:

"Now, if I understand that correctly, under this plan the railroads and their employees could practically determine what the public must pay for the use of the railroad facilities?"

"MR. CUYLER. Yes, sir.

"Senator TOWNSEND. And the people would have nothing to say about it?"

"MR. CUYLER. No; except the right of appeal on complaint."

The people do not "appeal on complaint." The shippers and the carriers come to the Interstate Commerce Commission with all sorts of appeals and complaints, but with the right to fix the minimum rate denied that body and with no power to prescribe service or rules governing the issuance of securities it seldom occurs to the consumer or the passenger that this tribunal exists for him at all.

It should be borne in mind that only the consumer is interested primarily in the reasonableness of a rate; that the shipper's chief interest is in maintaining the proper relationship of his rates to those of his competitors, because he passes along the cost to the consumer; and that the carrier's interest, under private ownership, is in collecting all that the traffic will bear.

Under any scheme of rate making that approaches the scientific, cost of operation, which includes all fixed charges except depreciation, is the prime fact to be ascertained; but under private ownership the finding of such cost, not to mention properly subdividing and apportioning it to the services rendered, has proven to be practically impossible. With all of the carriers, including those now privately operated, under Federal control for a period of five years following the proclaiming of peace, and with the field part of the work of valuing these railroads practically completed within the next three or four years, as the director of valuation assured the Interstate Commerce Commission only a few weeks ago was easily possible, the cost of operation can be closely approximated.

Then, for the first time, provided Congress extends the period of Federal control, it will be possible to fix rates that are reasonable and just from the standpoint of the consumer as well as of the shipper and the carrier. But I

repeat that to attain justice and equity in the shape of rates for the consumer under private ownership or control is practically impossible. Therefore, I regard it as imperative that due allowance be made for the shortcomings or failures of Federal control under abnormal conditions, that the good accomplished and under way be given preferred consideration, and that the recommendation of Director General McAdoo be followed.

In conclusion I beg to remind this honorable committee and the Congress that we read and see much of the concentration of our population in big centers, of the consequent evils thereof; poorly paid and badly housed labor; congested tenement districts and children growing up under unfavorable conditions; the increase of the criminal class; girls on the streets; and I submit that our long-existing improper plan of fixing freight rates is more responsible for these unholy and uneconomic segregations of humanity than any other one cause.

